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A SKETCH
OF THE
HISTORY OF THE CURRENCY.

1777
1778
1779

A SKETCH
OF THE
HISTORY OF THE CURRENCY.

BY
JAMES MACLAREN M.A.,
BARRISTER-AT-LAW.

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Second Edition,

CONTINUED FROM 1858 TO THE PRESENT TIME.



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1879.

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PREFACE.

WHEN I published the First Edition of this work, in the year 1858, I anticipated a great fall in the value of gold, and believing that in England, where all interests in property had long been secure, and where, in consequence, there existed many partial interests which would suffer greatly from a change in the standard of value ; where, above all, a most extensive system of life assurance prevailed, which was the chief resource of many families, and which is evidently peculiarly liable to be injured by a fall in the standard of value—the premium being paid in the dear, and the sum

insured in the cheap, money—I advocated the adoption of silver instead of gold as the standard metal in our coinage. Twenty years have now elapsed ; gold has not fallen materially in value ; and so unexpected are the results produced by the ‘whirligig of time,’ that silver is now the metal which is falling in value. As that metal has never of late years been the standard of value in this country, the classes who would have suffered from the fall in the value of gold, are free from all danger ; these classes are in the main poor and helpless ; but the fall in the value of silver affects more powerful interests, and is making itself felt.

The currency is notoriously a repulsive subject, supposed by most people to be hopelessly mixed up with charlatanism, and perhaps with dishonesty ; and, at any rate, to be quite

unintelligible to all persons who have not made it their peculiar study. There is, however, scarcely any event of importance in the history of the civilized States of the world which is not more or less mixed up with currency questions, and I trust that these questions, when taken into consideration in conjunction with the events of the time, may not be found either disagreeable or difficult.

A great portion of the latter part of my former Edition has necessarily been re-written, but here, and also in the continuation of the history to the present time, I have endeavoured to follow the plan which was found useful in the First Edition. I have placed the arguments for and against each point in such a manner, that the Reader may form his own opinion upon them before I have stated the

impression which they have made upon my own mind.

We are told by Economists that production creates demand. When men have produced much, they have much to exchange with each other, and the markets are brisk. We are also told, that exchanges create wealth by giving to one man what he requires, and which is a superfluity to his neighbour. These exchanges were originally carried on by barter, and it was to obviate the difficulties of so rude a mode of conducting business that money was invented. 'When the division of labour was once established,' says Adam Smith, 'it became an object to every man to have some commodity which all men were ready to take at all times for their goods, because they knew that at any time they could get other goods for

this commodity, which thus became a medium of exchange, and the measure of value.' It would be anticipating a long story to tell here how this simple currency developed itself into the complicated financial and monetary machinery of modern times ; we shall find, strange as it may seem, that from first to last our pages are filled with details of plans for tampering with the standard of value ; for making that uncertain which was originally chosen by mankind because of its fixity.

CONSTABLE BURTON,
BEDALE.



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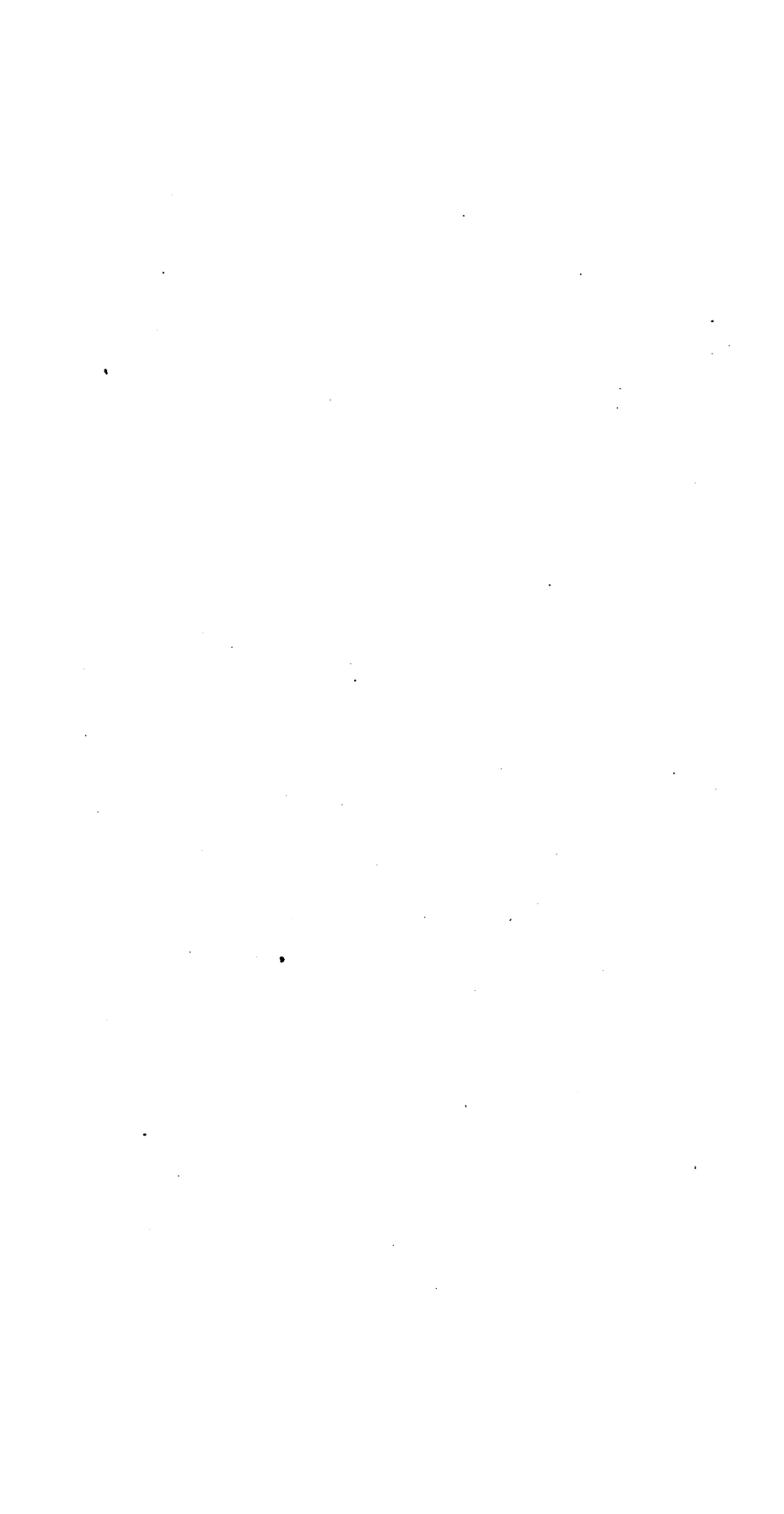
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A SKETCH OF THE HISTORY OF THE CURRENCY.

CHAPTER I.

PERIOD OF A METALLIC CURRENCY.

Period of a metallic currency—Early debasement of the coin—Restoration of the coin by Elizabeth—The mines of Potosi—Their effect upon prices—Their effect upon the country—Introduction of gold into the coinage—Working of a double standard—Mint and market price of bullion—Mercantile exchanges—Nominal or currency exchange—Reformation of the coinage by William III.—Prices and the extent of the currency—Why the new coin disappeared.

WHEN the method of reckoning by pounds, shillings, and pence was introduced into this country by William the Conqueror, a certain amount of pure silver was allotted to each coin; the pound sterling and the shilling were then, indeed, but imaginary money, the largest silver coin in existence being the penny, which contained the two hundred and fortieth part of a pound of silver; but a shilling if then coined

would have contained the twentieth part of a pound, and the pound sterling would have weighed a pound.

Our kings soon began to debase the currency, by diminishing the quantity of pure metal contained in the coins without altering their denomination; their motive,* according to Lord Liverpool, being not merely the gain which they themselves obtained by making more money out of the same amount of bullion, but also a desire to increase the wealth of their subjects, which they supposed to depend upon the quantity of money in the country, so ancient is the theory which attributes a power of increasing national prosperity to an extension of the currency. These debasements were practised to a great extent in the latter years of the reign of Henry VIII. and in the beginning of that of his son, who, however, afterwards prepared a scheme for the restoration of the coinage to its former standard, which, with some modification, was carried into effect by Elizabeth.

We here meet at once some of the most difficult questions connected with our subject. Prices, we find, always rose when the coinage

* 'Letter to the King on the Coins of the Realm,' p. 107.

was debased; their tendency to rise was, indeed, so well known, that the Government, when about to debase the money, usually attempted, though in vain, to fix prices by Act of Parliament; and we may be sure that the currency was extended on these occasions, as the object of those who debased it was to make more money. Now, did prices rise because the people saw that there was less pure metal than before in the coins?—and did they rise in exact proportion to the diminution of the quantity of the pure metal, so that goods continued to exchange for the same quantity of pure metal as before? This seems a natural solution of the problem, but it is attended with this difficulty, that when people had become accustomed to estimate their property by reference to a certain number of pieces of the coin of the realm, and when they sold all their commodities for these coins, they could not, whatever they might think of the quantity of metal in them, increase the prices of their goods universally until the purchasers had more money, until the coin had been sufficiently increased in quantity to supply the amount of it required to effectuate the exchanges at a higher price. Was it,

then, the extension of the currency, and not the diminution of the quantity of pure metal in the coin, that caused the rise in prices?—and was this rise exactly proportioned to the extension of the medium of circulation? Again, did prices fall when the coin was restored to its former standard without any contraction of the currency, or must a contraction of the currency necessarily follow such a restoration? And lastly, as the machinery by which circulation is conducted was apparently increased or diminished on these occasions, did this circumstance, or the general rise or fall of prices, produce any effect on the industry of the country? We shall shortly meet with important evidence upon all these points; but with respect to the very early debasements and restorations of our coin, the statistical details are so very uncertain that we can form no definite conclusion: all we know is, that there are no historical facts from which we can at all infer that these depreciations of the currency had any beneficial, or its restoration any injurious, effect upon the industry of the nation; on the contrary, the debasement of the coin was universally complained of as an evil unmitigated

by partial prosperity ; and its restoration to its former standard by Elizabeth, though effected at a great expense, and after the coinage had remained for a considerable time in its degraded state, and many contracts must have been made with reference to it, was hailed by the nation with joy, and is recorded as being, after the reformation of our religion, the most useful act of that reign.

From the year 1570, notwithstanding the restoration of the coinage by Elizabeth, the prices of all articles continued to rise gradually until about the year 1640, after which period they maintained the same average level for a century at least. This rise in prices, estimated by Adam Smith and Mr. Jacob at 400 per cent., but by Mr. Tooke at 200 per cent. only, is universally ascribed to the large supplies of silver which were produced by the fertile mines of America. It is a remarkable fact, that, notwithstanding the smallness of the quantity of silver then existing in this country, which we should suppose would have rendered the effect of any addition to our stock immediately evident, prices did not on this occasion begin to rise until more than twenty years

after the discovery of the very rich mines of Potosi.*

We ought here to find some evidence as to whether prices depend upon the value of the metal in the coin, or the extent of the currency. Did prices rise because the pure metal contained in the coins had become less valuable as a commodity, or did goods remain at their old prices until more coins had been made? There seems to be no direct evidence on this point, owing to the imperfection of the statistical details of the period; but as prices did not begin to rise in this country until long after the richest mines were discovered, there seems some ground to argue that they were not affected until an increase of the coinage had taken place.

Again, as there was nothing to cause a feeling of distrust on this occasion, or in any way to interrupt the ordinary course of business, for there was no debasement of the coin from the standard, nor any change in its weight or appearance, there could be no interference of any kind with the power of an increasing currency to promote the general prosperity, and

* 'Wealth of Nations,' Book i. c. xi.]

we should expect to find that power, if it really exist, most conspicuously displayed. There certainly occurred, about this time, a considerable extension of our commerce, and reference is often made to this fact by the admirers of an abundant currency, as a proof of the beneficial effects of an increase of the money of a country. We shall shortly meet with the opinions of several eminent economists upon this question ; at present we must remind the reader that, before we attribute the advance of commerce, which took place at this time, to the fall in the value of money, we must allow for the beneficial influence exercised by the destruction of the feudal system, by the progress of good government, by the increased security of property and person, which had occurred, and by the new market afforded by America ; having made this allowance, we shall apparently have but a small part indeed of our social advance to attribute to the depreciation of the value of money ; yet, at that time, there were circumstances which would, perhaps, tend to make such a change in the currency far more effective in increasing the productive power of the country than it now could be ; then, by its action on the rents

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reserved on perpetual leases, it would tend to break up the very large estates of the great nobles, giving their tenants a greater interest in the land, a circumstance which, in those days, when there existed no class of tenant farmers possessing capital, would, it is generally allowed, have promoted the cultivation of the soil. It might have facilitated the creation of a middle class, and it would tend to make the Crown more dependent upon Parliament, and our Sovereign the head of a constitutional government, instead of the most powerful noble of the country.

There are some circumstances which seem to show that, even at this time, the fall in the value of money was felt rather as an impediment to the progress which the country undoubtedly made. Mr. Jacob* states that complaints of distress amongst all classes were never so frequent nor so loud as at this period, and he quotes a work printed at this time in the form of a dialogue between a landowner, a husbandman, a shopkeeper, a manufacturer, and a doctor of divinity, on the state of the country. All the speakers have complaints to make. The

* 'History of the Precious Metals,' vol. ii. p. 89.

landowner laments that his land is on lease, that not above one-third of it is likely to fall into his hand during his life, and that in the meantime he is ruined by the high prices he is obliged to pay. The manufacturer and merchant complain of the high wages they are compelled to give their workmen, though they allow that those wages are too small to meet the increase in the price of provisions, or to provide a sufficient subsistence. The fact that in those days, when books were not so plentiful as at present, a work should appear on such a subject, points to anything but a state of general prosperity, it is certainly a fair inference that the depreciation of money, instead of assisting the progress of the country, rather interfered with the beneficial influence of the new market, and produced a useless confusion of property, accompanied with a peculiar pressure on the lower classes. Of this last fact of the distressed state of the labouring classes at this period we have direct proof. Many Acts of Parliament were passed for their relief at different periods of the reign of Elizabeth, and just before its close it was found necessary to establish our compulsory system of poor laws,

a course of legislation clearly indicative of growing poverty.

The reader will probably wish to know in what manner this great and long-continued fall in the value of money was received by the statesmen of that period. It is said that Lord Burleigh and Sir Thomas Smith were aware that the great rise in the price of all articles, which occurred about the end of the reign of Elizabeth, was a consequence of the increasing supply of silver, and that in order to preserve the colleges of Oxford and Cambridge from the consequences of the fall in the value of money, they procured an Act of Parliament to be passed, by which these bodies were obliged to reserve one-third of their rents in wheat or malt. It is difficult to see with what other object this Act could have been passed ; but it is singular these statesmen should have confined their solicitude to these colleges. We should have supposed that the same proviso would have been inserted in the leases by deans and chapters and other ecclesiastical persons ; and even if the Crown-lands were already leased at perpetual rents, so that this plan could not be adopted with respect to

them, there seems no reason why these statesmen should not have applied it to their own estates, and have been imitated by their neighbours. We have seen that the rise in prices was sufficiently rapid to be severely felt by the landowners of this period, whose land was on lease, though they might not be generally aware of the cause of it.

Up to the reign of Edward III. the small quantity of gold coin which existed in this country, exchanged for the silver coin in accordance with the market value of the gold as bullion, and silver was the sole standard of value ; but in that reign gold coins were made in considerable numbers, and were ordered to pass current for a certain number of the silver pieces, the number at that time corresponding with the relative value of the two metals. We now had a double standard ; debts could be paid in gold or silver, at the option of the debtor. When our kings debased the silver coinage, they either reduced the quantity of metal in the gold coins, or declared that they should pass for a larger number of the debased silver coins ; under these circumstances both species of coin continued for a time jointly to circulate ;

but in the reign of James I. great inconvenience was felt in consequence of the disappearance of the gold coin from circulation. This event is considered evidence of a change in the relative values of gold and silver. The quantity of silver which was brought from America having greatly exceeded that of the gold derived from the same source, silver bullion became cheaper than gold, *i. e.* would purchase as bullion fewer commodities than the gold bullion to which it was before equivalent, and for which it would still exchange in the coinage; silver was, therefore, coined and exchanged for the gold coins, which were melted down and employed as bullion. To remedy this inconvenience, the king diminished the quantity of gold in his coins, and ordered that they should pass current for a greater number of pieces of the silver coin. As the extent of this rise in the denomination of the gold coin was too great, the case was reversed, and it now became profitable to exchange gold coins for silver coins, and to melt the latter. Thus, at the time when the American mines were in full operation, there existed in this country a scarcity of the coins of each of the precious

metals alternately, and it would seem, from repeated proclamations issued at the time,* in restraint of the use of both gold and silver in the arts, that one metal did not merely at once replace the other, but that during the process a feeling of a scarcity of money of every kind was experienced.

This melting down of the silver coin ceased as silver gradually fell in value, when compared with gold; and this fall still continuing, Charles II. again reduced the quantity of metal in the gold coin. Guineas were now first coined, receiving that name from the country from which the gold had been procured. They were intended to pass for 20*s.*, but no proclamation was made prescribing the rate at which they should pass; they became current, by consent of the people, for 21*s.* and 22*s.*, without being a legal tender; and, so far as they formed the bulk of the gold coinage, silver became again in law, as it was at this time in practice, the only standard of value.†

By the middle of the reign of Charles II., when the alteration of the relative value of gold

* 'Lord Liverpool, Letter to the King,' p. 62.

† Ibid., p. 29—69.

and silver, caused by the unequal production of those metals in America, attained its maximum, silver had fallen in value, as compared with gold, rather more than 32 per cent.*

After the restoration of the coin to its former standard by Elizabeth, it was never intentionally debased, but it was allowed to circulate after it became worn; and the consequence was, that a progressive depreciation of it took place, for the debasement of the coin naturally grew greater and greater, and whatever new coin was issued was either hoarded or clipped, and reduced to the average condition. Affairs continued in this state until the reign of William III., when a reformation of the coinage became absolutely necessary. We shall now find more distinct evidence upon the questions which we have seen arise on a debasement of the coinage; but, in the first place, we must notice in what manner the extent of a depreciation of the currency from the value of a currency of full weight can be measured. This is effected by comparing the mint and market prices of bullion, and by examining the state of the foreign exchanges.

* 'Lord Liverpool, Letter to the King,' p. 57.

These expressions—Mint and market price of bullion, rise and fall of the exchanges—constantly recur in discussions upon the currency, and are frequently felt as a difficulty when the attention is first turned to such inquiries.

The Mint price per ounce of the precious metals is simply the number of pieces into which an ounce of them is divided by the Mint; it is always the same until the standard of the coin is altered by law, and does not depend at all upon the value of the precious metals as compared with commodities. Thus, the Mint price of an ounce of silver was *5s. 2d.* from the time of Elizabeth, because the ounce of silver was always divided into *5s. 2d.*, whatever might be the variations in the value of silver as compared with commodities. The market price of an ounce of silver is, of course, the sum for which an ounce of it in the shape of bullion can be actually sold, reckoned in the money for the time being current. If the current money consist of pieces of silver bullion of full weight, the Mint and market prices of silver must obviously in general agree; but if the currency be depreciated, then the price of an ounce of silver bullion, like that of any

other commodity, will rise, and this rise in price will clearly indicate the extent to which the purchasing power of the currency differs from that of the bullion which it represents. Some little difficulty occurs with respect to the Mint price of gold. Our coinage was originally adapted to the employment of silver only—hence an ounce of silver can always be divided into a certain aliquot number of pieces of coin, but as gold was introduced at a later period into a coinage adapted only to silver, an ounce of gold cannot be coined into an aliquot number of pieces—hence the Mint price of gold, the precious metals being always priced by the ounce, must be reckoned in what are called the monies of account, that is, in pounds, shillings, and pence. This has led to much misapprehension, and persons, seeing the Mint price of gold quoted, £3 17s. 10½*d.* frequently suppose that it has some connexion with the value of gold as compared with commodities. At present gold is our standard; its value regulates that of the shillings and pence, in which the Mint price is expressed, and they may be taken as portions of the ounce of gold.

By the rate or course of exchange is ordin-

arily meant the terms on which merchants residing at a distance from each other settle their pecuniary transactions. A bill of exchange is an order by a creditor on his debtor to pay a certain sum out of the debt to a third party, to whom the creditor has money to pay. If, for instance, a merchant in Edinburgh has a payment to make in London, instead of sending gold, which would be a dangerous and expensive mode of remittance, he draws a bill upon some person residing in London who is indebted to him, and he sends the bill to the London merchant to whom he is himself indebted. If there be no person in London who is indebted to him, he inquires amongst his brother merchants in Edinburgh until he finds a person who has a debt due to him in London; he pays this person the debt which should be paid in London, and receives from him, in return, a bill upon his debtor in London; that is, he purchases a bill upon London, which, as in the former case, he sends instead of the money which he owes. The London merchants are doing the same thing in London with respect to payments which they have to make in Edinburgh; and if it happen that the

amount of debts due to Edinburgh in London is equal to the amount due to London from Edinburgh, no difficulty is found on either side in obtaining the necessary bills, and the exchange between the two places is said to be at par; but if more debts should be due from Edinburgh to London than from London to Edinburgh, the Edinburgh merchants will not all be able to obtain bills upon London. They will therefore be obliged to give a premium to some person who has connexions in London—to, as it were, create a fictitious debt from London to Edinburgh, by drawing upon some one with whom he has connexions, and who will pay his bill. In this case the exchange is said to be against Edinburgh, and in favour of London. When the exchange is at par, £1 sterling in Edinburgh will purchase a bill for £1 sterling in London, or, in other words, will be equal to £1 sterling in London. When the exchange is against Edinburgh, £1 0s. 6d. in that city may be required to purchase a bill for £1 in London, and will be equivalent to £1 only in London; and 19s. 6d. in Edinburgh might be equivalent to £1 in London were the exchange favourable to Edinburgh.

In the same way payments are made between different countries, as, for instance, between France and England ; but here a new feature presents itself. The currency in which the two payments are made is no longer the same ; we reckon by pounds, shillings, and pence, and France by francs and centimes. There must, however, be a proportion in which the coins of the two countries exchange with each other, irrespective of the balance of payments for the time being between the two countries. This proportion, which is well known, and which is called the par of the currency, or the intrinsic par of exchange, depends upon the quantity of pure metal contained in the coins of the respective countries. It is settled amongst the merchants, either by a general agreement as to the amount of pure metal contained in the respective coinages, or by reference to the Mint regulations of the different countries. Thus, our sovereign contains as much pure metal as 25 francs, 22 centimes, which is the intrinsic par of exchange between England and France. When the course of exchange with France, as settled by the merchants, from the demand and supply of

bills, is such that £1 in London will pay 25 francs 22 centimes in France, the exchange between the two countries is said to be at par, as it was between London and Edinburgh when £1 in that city paid £1 in London; when £1 sterling pays more than 25 francs 22 centimes, the exchange is said to be in favour of England, and the contrary when £1 pays less than 25 francs 22 centimes.

In calculating exchanges with some countries we consider our money fixed, and receive from them a variable sum; with others we give a variable sum, and consider their money fixed. Thus, in our transactions with France, we treat our £1 as the fixed quantity, and receive for it a certain number of francs and centimes, varying according to the state of the exchange. In this case the more we receive, evidently the greater is the advantage, and the exchange is said in this case to rise when it is becoming more favourable to us; and, as we consider our £1 the fixed quantity in our transactions with the most important commercial nations of the continent, the exchanges are said to rise when they are generally becoming favourable.

The balance of payments in the ordinary course of mercantile transactions is never long in favour of any one country, for if our merchants are obliged to give £105 here to buy a bill for £100 on a foreign state, they evidently lose 5 per cent. on the transaction, which must diminish their profits; at the same time, the foreigner would gain 5 per cent., which would increase his profits on any importation of our goods into his country. An unfavourable exchange, therefore, acts as a tax on the import of foreign goods, and as a bounty on the export of those of home produce. There are soon more foreign bills to be bought in England, and their price falls; there are fewer English bills to be bought abroad, and their price rises; and, after a short time, the exchange comes again to par; nor can the rate of exchange much exceed the expense of sending bullion abroad, for, rather than pay a higher price for a bill, it would seem that bullion would be sent in discharge of the debt.

Besides these mercantile exchanges, however, a rate of exchange may arise from variations in the currency. It is evident, that if the quantity of pure metal in the coinage of either

country be diminished, more of the coins of that country must be given to provide an amount of pure metal equivalent to that in the coins of the other country. If, when such a change occurred in either currency, merchants were in the habit of re-arranging the intrinsic par of exchange, no effects would be produced by such change, nor would any rate of exchange arise between the two countries. But this is not the habit of merchants. The intrinsic par is left as it was, and the difference between the two currencies is estimated in an increase in the number of the coins of the depreciated currency required as an equivalent for the former amount of the unchanged currency ; and, though the balance of payments between the two countries be at par, a rate of exchange is established between them similar in appearance, though not in reality, to what might have occurred from mercantile causes, while both currencies had remained unchanged. This exchange is generally called the nominal exchange ; there is evidently no limit to its amount, except the extent of the change in one of the currencies ; it offers no premium on

exports, nor does it operate as a tax upon imports ; it is merely a mode adopted by merchants of keeping their accounts, instead of making the alteration in the intrinsic par which would cause the nominal exchange to disappear. This nominal exchange is, in practice, mixed up with the mercantile exchange, and the two together form the computed exchange, by which merchants regulate their transactions, and which is that quoted in the papers. It is evident, that if the currency of any country become depreciated, the computed exchange will have a great tendency to be constantly against that country ; and the extent to which the exchange is unfavourable will, making due allowance for the state of the mercantile exchanges at the time, be the measure of the extent of the depreciation. The reader must note, however, that if any circumstances give the depreciated currency a purchasing power at home beyond what is due to the quantity of pure metal contained in it, a smaller amount of that depreciated currency will have to be given to provide a portion of pure metal equivalent to that contained in the given

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number of coins of the foreign currency, and the nominal exchange will be diminished accordingly.

When the reformation of the coinage came to be discussed, in the reign of William III., Mr. Lowndes, the secretary to the Treasury at that time, considered that the stamp and the denomination fixed the value of the coin; but Mr. Locke * asserted that coins were merely pieces of bullion, and that prices had risen on that occasion because people saw that there was less of this bullion in the clipped and worn coins, and proportioned their demands in such a manner as to obtain for their goods the proper equivalent in silver bullion. The arguments by which he supported his theory were long considered satisfactory, and money is called by many economists a universal equivalent, as distinguished from a sign of value; "but there were some incongruities," says Lord Liverpool,† "in the value of the gold and silver coins, and of the price of bullion with reference to them, which seem to prove that the events which then happened, by no

* 'Further Considerations concerning Raising the Value of Money.'

† 'Letter to the King,' p. 79.

means correspond with the conclusions which, in Mr. Locke's opinion, resulted from the principles laid down by him, and afford strong reason to infer, that there are other causes which may sometimes influence the value of coins, while they are current only within the realm, besides the intrinsic value of the metal in such coins." The incongruities alluded to by Lord Liverpool seem to have been as follows : The market price of silver bullion was, at this time, 6*s.* 3*d.* per ounce, and the exchanges constantly from 25 to 30 per cent. against us, thus indicating that the coin had, on the average, lost one quarter of its value. But it was found to have lost, not a quarter only, but nearly one-half of its weight. £57,200 of coin were weighed ; the weight ought to have been above 220,000 ounces ; it was found to be under 114,000 ounces.* To correspond with such a deficiency of weight, the market price of silver ought to have been nearly 10*s.* per ounce, if the value of the coin had depended solely upon the quantity of pure metal contained in it, and the exchanges should have been nearly 50 per cent. against us. The purchasing power

* 'Macaulay,' vol. iv. p. 624.

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of the currency was, in reality, depreciated in a much less proportion than that in which the quantity of pure metal was diminished. Lord Liverpool suggested no explanation of this difficulty, but Mr. Ricardo,* at a later period, maintained that the market price of bullion did not rise, and the foreign exchanges did not fall, on this occasion in proportion to the diminution of the quantity of pure metal in the coin, because the coin, though much increased in quantity by the illicit coining, which was carried on to a large extent at that time, yet existed in a degree of scarcity which gave it an artificial value ; there was not enough of it to supply the machinery for exchanging the commodities of the country at double their former prices, though more than enough to circulate them at the former rate, and therefore, though prices rose, they were kept from rising to the full extent of the deficiency of pure metal.

It is, certainly, highly probable that the currency, though extended at this time, was not increased in the proportion in which the

* See the chapter on Currency, in his 'Political Economy,' and Reply to Mr. Bosanquet, 'Political Works,' p. 347.

coin was debased, for coining, though a very profitable, was a very dangerous, occupation ; numbers of coiners and clippers being hanged or burned. And as no other reason than that alleged by Mr. Ricardo can be given for the comparatively small fall in the exchanges and rise in the market price of bullion, we must admit, that under circumstances such as existed at this time, when the coin was allowed to circulate in a worn state, and it was the habit of the people to use the coins of the country as the only, or, at least, the chief, instrument of exchange, the value of these coins depends upon their number and not upon the quantity of pure metal contained in them.

These somewhat subtle points are even now of great importance. With us the expense of manufacturing the coin is borne by the State, but in some countries a small portion of all the bullion brought to be coined is kept by the Mint to defray the expense of workmanship ; and this seignorage, as it is called, is said to raise the value of the coins (we suppose by limiting their number) above that of the pure metal contained in them ; and we shall find that it is proposed to take a small quantity of gold

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from our sovereign to fit it for an international coinage, relying upon this principle of seignorage to keep up its value. Upon the point, too, that the home value of a currency being kept up, the foreign exchange will be supported, we shall meet with a proposal to remedy the present disastrous Indian exchange by limiting the coinage of rupees.

When a reformation of the coin had been decided upon, the question naturally arose—Should the ancient standard be retained, or should the new coin be issued at a standard which would render it equal to the average of that then in circulation? The second of these plans was supported by Mr. Lowndes, amongst other reasons, on the ground that, as the depreciation of the coin had lasted for a long time, the greater part of existing contracts had been formed with reference to it, and that to issue the new coin at the lower standard would leave those contracts unaffected, while to retain, or, rather, to restore, the ancient standard, would injure the debtor to the amount of the difference between the old and the new coin. Notwithstanding this argument, which, perhaps, was not very distinctly urged by Mr. Lowndes,

it was resolved, on the advice of Mr. Locke, who relied upon the fact that the debasement of the coinage had not been recognized by the State, to adhere to the ancient standard. The light coin was called in and replaced by pieces of full weight, at a loss to the nation of nearly three millions sterling.

When the recoinage was effected, the market price of silver bullion fell nearly, but not quite, to the Mint price; that is, an ounce of silver bullion was still rather more valuable than an ounce of silver coin. This difference in price was supposed to have arisen from a demand for silver bullion for exportation, and from the laws which at this time prohibited the exportation of coin; there being thus a demand for bullion which did not exist for coin, the former was the more valuable. Nor did the value of the guinea fall quite so much as it ought to have done, according to the relative values of gold and silver in the bullion-market. It was said, that the people had been accustomed to the use of gold coin while silver was out of circulation during the recoinage, and that they set voluntarily too high a value on the guinea, which passed currently at 21*s.* 6*d.* The

consequence was, that it became profitable to procure the silver coin in exchange for guineas, and to melt it down; and the new silver coinage, which disappeared very rapidly, was said to have been melted down on this account. To prevent this, on the advice of Sir I. Newton, the guinea was ordered by proclamation to pass for 21s. only. The guinea was said to be still too highly rated as compared with silver bullion; it was still more profitable to pay a debt in gold than in silver, and for this cause gold gradually came in practice to be the chief currency, and the only actual standard in lieu of silver,* as every one chose to discharge his obligations in that metal which was over-rated with respect to the other. In the year 1774, the gold coin, which had become much worn, was called in and recoinied. At this time the silver coinage was also in a very debased state; but as it had now ceased to be the principal currency of the kingdom, and existed only in sufficient quantity to afford the necessary change for gold, a guinea, both before and after the recoinage of the gold, continued to exchange for the same number of shillings.

* 'Lord Liverpool on Coin,' p. 85.

At this time, also, a bill was passed enacting, that no tender in payment of money made in the silver coin of the realm should be allowed to be a legal tender for more than according to its value by weight, after the rate of *5s. 2d.* for each ounce of silver.* This Act, in the then state of the silver coin, amounted to the establishment of gold coin as the only legal tender, and the standard by which all property was measured, though silver was not formally deprived of its character in this respect until the year 1816.† In this country gold of the proper standard is now coined by the Mint without any charge and to any extent, but silver bullion is coined only by permission of Government.

The reader will see that there was a much better reason for the melting down of the coin than the laws prohibiting the exportation of coin, or the voluntary over-valuing of the guinea. We have just had evidence that before the reformation of the coinage, the price of commodities depended upon the extent of the currency, and that an ounce of silver bullion

* 14 George III., c. 42.

† 56 George III., c. 68.

was worth 6*s.* 3*d.* Now, as a new silver piece was substituted for each of the old ones, the extent of the currency, at least at first, would not be altered, and an ounce of silver bullion would still cost 6*s.* 3*d.*; but as the 6*s.* 3*d.* which would purchase it, would in the new coin contain more than an ounce of silver bullion, it would be profitable to melt the coin rather than purchase the bullion with it. Probably, from the gradual introduction of the new coinage, and from other causes, there never was anything like so great a difference between an ounce of silver bullion and its price in coin as above assumed, but sufficient difference existed to make it profitable to melt the coin.

There is no trace of any stimulus having been given to industry by this depreciation of the coin, and the extension of the currency and general rise of prices by which it was accompanied; on the contrary, we find again, on this occasion, that the working classes were great sufferers. Nor does the restoration of the old standard appear to have given any check to commerce; the difficulties which occurred from want of money during the recoinage ceased when it was completed, and would appa-

rently have been as great had Mr. Lowndes's plan been adopted. The benefits derived by the whole community from a steady measure of value, seem to have completely over-shadowed the effects of the gains and losses of those who were borrowers and lenders.

CHAPTER II.

FIRST PERIOD OF A MIXED CURRENCY OF GOLD AND
BANK-NOTES CONVERTIBLE FOR GOLD.

Rise of the modern system of credit—Establishment of the Bank of England—Country banks—Banks of Scotland and Ireland—Effect of paper credit on prices—Plans for increasing the currency—Adam Smith, on what is money—Adam Smith, on the amount and distribution of money—Adam Smith, results of the use of paper money—Adam Smith, the circulation between wholesale and retail dealers—Adam Smith, convertible bank-notes equivalent to gold—Adam Smith, influence of bankers' reserves on prices—Bank of England during the re-coinage—Result of Law's scheme—Adam Smith, on loans of money—Adam Smith, the power of banks to assist merchants—Mr. Hume on increasing money—Banking on the Continent—Instances of depreciated currencies—French assignats—Currency of Russia—Commercial distress of this period—Commercial distress of 1792—Relieved by issue of Exchequer bills—Prosperity which preceded this pressure.

UP to the end of the seventeenth century it might, perhaps, be assumed, without much error, that the commodities of the country were circulated by means of coin only; but commodities can be circulated in a very differ-

ent manner. The wholesale importers or producers of goods may supply their customers on credit, merely entering in their books the amount of the debts and the time of payment ; their customers may dispose of these goods to other persons in the same manner, and so the transfer may go on until the goods come into the hands of the consumer. Goods may thus circulate without either barter or money, provided the period of credit given on the first transaction be long enough to include the several periods of credit given on the subsequent sales ; but not only may goods circulate without money, but a species of money may be created by their circulation. The original vendor, instead of entering his customer's debt in his books, may demand from him a written promise to pay the purchase-money. Should the customer's reputation for wealth be good, the vendor will be able to use his promise to pay as money ; he may go into the market with it, and by handing it over to a third person, may get goods for it. The person who receives this promise-to-pay, may, in like manner, hand it over in payment to a fourth person ; and it may pass from hand to hand until the time

comes which is mentioned for the payment of the money, when the holder for the time being of the written promise will receive the amount. It is evident that such a promise-to-pay, in the course of its progress, may circulate many commodities besides those, the transfer of which called it into existence, and that it performs some of the functions of money. In early times, our law prohibited the assignment of debts, probably with a view of protecting debtors from oppression; but in the reign of William III., inland bills of exchange were allowed to pass from hand to hand by indorsement; and in the succeeding reign the like privilege was extended to promissory notes. From this time, the new system of trade upon credit may be said to have become established; and it became customary, on account of the facilities which they afford in recovering the amount of a debt, and from the other advantages which they possess, to require either bills or promissory notes, in many instances where sales were made on credit.

It sometimes happened that the holder of a bill required the money before the time of payment came; in this case persons were always

found ready to cash the bill for him, deducting from its amount the interest of the money advanced up to the time of payment of the bill. This is called discounting the bill. A great deal of this business soon fell into the hands of bankers, and they cashed the bills which they discounted, not with gold, but with their own notes or promises to pay gold on demand. Bankers also issued notes or promises to pay money to such persons as required advances from them ; they received deposits of money from their customers, and it became customary to make payments by cheques or orders upon the bankers to pay a certain sum out of the money so held in deposit. These cheques sometimes passed from hand to hand, and circulated other goods as well as those for payment of which they were drawn, and by these means written instruments still more completely supplied the place of coin.

The Bank of England, established in 1694, was connected with the State by the loan of the greater part of its capital to Government, and, so far as its capital was concerned, the security for the convertibility of its notes was, from the first, not entirely bullion, but to a considerable

extent the national credit. In 1708, an Act of Parliament was passed, prohibiting any firm, consisting of more than six partners, from issuing notes, thus giving the Bank of England a species of monopoly by diminishing the amount of security by which the notes of the private bankers could be supported. Country banks began to appear about 1750; they issued notes for very small sums, and payable only on conditions with which the holders were not likely to be able to comply. In Yorkshire, notes were issued for sums of 5s. and even of 6d., payable on condition that the bearer brought change for a guinea.* These practices being found very injurious to the poorer part of the nation, an Act was passed in 1775, prohibiting the issue of any note under 20s., or on any condition, and declaring that all notes previously issued on conditions should be payable on demand. By a later Act, passed in 1777, the lowest sum for which notes could be issued was raised to £5.

The Bank of Scotland was established in that country in 1695, and many other banks shortly afterwards. None of them were con-

* 'Wealth of Nations,' p. 143. McCulloch's 4th edition.

nected with the State in the same manner as the Bank of England. The Act, restraining the number of partners in a bank issuing notes to six, did not extend to Scotland, and the number of partners in most of the Scotch banks is considerable. These banks, like the English country banks, originally issued notes for small sums, and reserved to themselves the option of paying them on demand, or at the expiration of six months with interest; but in the early part of the reign of George III., all notes for less than 20s. were prohibited in Scotland, the insertion of this optional clause in them was forbidden, and all notes then issued were made payable on demand. The Scotch banks have always possessed the confidence of the people, and their notes have to a great degree superseded the use of coin in that country.

The Bank of Ireland was established in 1783, on the plan of the Bank of England. Its capital was lent to Government, and its monopoly of the issue of notes was secured by a similar limitation of the number of the partners in every bank issuing notes.

It is evident that the connection between the currency and the price of commodities, or

the state of the national industry, has now become much more complicated—the coin appears to play a less important part in the distribution of property and the determination of its value—exchanges are made by means of bills and notes as well as by coin, and even by credit, without the use of a circulating medium of any kind, though they still have a certain reference to the coin. We have now to consider the direct effect of this new currency in raising prices and encouraging industry, its collateral influence in these respects through its effect on credit, and the influence exerted by credit itself upon the social economy, independently of a currency of any kind.

One obvious consequence of this new mode of conducting business is, that a very much smaller amount of coin may be used than would have been required had all exchanges been effected by it. A part of the bullion formerly employed as coin would now be no longer required for that purpose, and would be used as plate and ornaments; but before its consumption for these purposes could be increased, its value must fall. Mr. Wheatly* accordingly

* 'Wheatly on Commerce,' p. 178.

supposed that bullion fell so much in value on account of the introduction of the system of credit, that prices were more affected by this event than by the discovery of the American mines. The tables of prices upon which he founds this theory are not of much authority, nor is it probable that the use of paper instead of coin was, at this time, sufficiently universal to produce any effect upon the value of bullion ; but there seems no theoretical error in the supposition of a great fall in the value of bullion, from the more general use of paper as money.

But the most important question which arose immediately after the introduction of this system of credit was, as to the power of these forms of paper money directly to extend the currency and affect prices.

At the commencement of the period which we are now examining, the belief that the national prosperity could be increased by an extension of the currency was almost universal. An abundance of money was supposed to give landowners really high rents, and merchants really high prices, and to lower the rate of interest and facilitate the borrowing of money, thus assisting young merchants of no

capital but great ability, by whom, according to the celebrated Sir Josiah Child, the greater part of our commerce was carried on. The only persons who could be hurt by such a state of affairs were the moneyed men, who, with the old prejudice against taking interest for the use of money, were held in slight esteem. They were considered the 'worst enemies of the nation, who had done more injury to the gentry and yeomanry than an invading army from France (the great bugbear at that time) would have had the heart to do.'* The difficulty was to bring about such an extension of the currency, and this seemed to be removed by the introduction of bank-notes. These appeared to discharge all the functions of money, and it was supposed that they might be increased to any extent without loss of value, if the public could but be satisfied of their security. The favourite scheme was to issue notes upon land, as that afforded, it was supposed, unquestionable security; the landowner, it was thought, while still using his land, might, by issuing notes upon it, produce an additional amount of property of equal

* 'Macaulay,' vol. iv. p. 494.

value, which might also be profitably employed. This was the scope of the land bank planned by Chamberlayne in England, in the reign of William III., and of the proposal made by the famous Law to the Parliament of Scotland, to appoint a commission to coin notes on the security of land. As in this scheme any person was to be at liberty to pay these notes into the hands of the commissioners at pleasure, and to receive again the security on which they had been issued, it was supposed that the public would apply to the commissioners for these notes when money was required, and redeem their estates by repaying them when it was no longer wanted, and that in this manner just the amount of money necessary for the business of the country would remain in circulation. This scheme is plausible, but we shall soon see that it must have failed to succeed in extending the currency.

It was in a great measure to expose the fallacies of these views that Adam Smith published his celebrated 'Enquiry into the Nature and Causes of the Wealth of Nations.' In this work, which is universally allowed to be the foundation of modern political economy,

(and which has in many respects had great influence upon the opinions of most of those who have taken part in the discussions upon the currency,) Adam Smith maintains that commodities and not money form the wealth of a nation; that commodities are produced only by labour and the employment of raw materials, tools and subsistence, previously stored up, or capital, and not by money, which is neither a tool to work with, nor a material to work upon, but only the instrument by which commodities are distributed. He maintains that the mines of gold and silver discovered in America added but little to the real wealth of the world; that it was not the increase of money, but the progress of good government, the destruction of the feudal system, and the opening of new markets, which caused the advance in industry and wealth which was observed in many parts of Europe at that time; and he refers in support of his views to the state of Spain, Portugal, and Poland, countries in which the amount of gold and silver money had increased, but which from bad government remained as beggarly as ever.

The theory of the dependence of prices on the extent of the currency had not, as yet, attracted attention ; and Adam Smith, like Mr. Locke, considers metallic money nothing but a commodity. He says, from the inconvenience of barter, it must always have been an object with every man to have by him a certain quantity of some commodity or other, which he imagined few people would be likely to refuse in exchange for the produce of their industry. Men, for many reasons, agreed to employ the precious metals as this commodity ; at first, they settled their transactions by weighing out portions of gold or silver, but as it was difficult at the moment to weigh these metals with sufficient accuracy, and still more difficult to ascertain their purity, it became customary for the ruling power in the State to divide them into uniform pieces, stamped with a particular stamp, denoting the weight and the degree of purity.

Adam Smith goes on to state, that the amount of gold possessed by every nation will depend upon its power of purchasing it with commodities, and that this quantity will be divided by the people into three parts, one of

which will be used for plate and ornament, another as coin for the internal circulation of their commodities, and a third in the shape of bullion for the adjustment of their foreign transactions, bullion being the money of the great mercantile commonwealth, and used in facilitating exchanges between individuals of different nations, as coin is between individuals of the same country.*

Adam Smith does not suppose the whole bullion set apart as money to be constantly employed in circulating commodities. Merchants, in all countries in which there are no banks, must keep by them, unemployed, considerable sums of money to meet occasional demands; and where banks exist, these occasional demands will be supplied by the bankers, who will be obliged to keep a reserve for that purpose, though evidently of smaller amount than the aggregate of the sums kept by the merchants themselves. Adam Smith seems to consider that, when a purchase is to be made, the buyer takes from his stock of gold such a portion of it as he thinks equivalent to the article to be purchased, and that the seller, on his side, parts

* Book iv. c. 1.

with his goods for what he considers an equivalent portion of the commodity, gold ; neither party taking into account the amount of the stock of gold which is available at the time for making purchases. Prices, then, depend upon the bullion value of the gold, and not on the amount of the currency, which amount, in fact, depends upon the business to be done.

We are inclined to accept the views expressed by Adam Smith in these passages, for he seems to describe what is of every-day occurrence. Here, however, in reality, we meet one of the great difficulties of the currency question. Many economists, including the supporters of the Bank Act of 1844, maintain that prices, or the proportion in which gold will exchange with any other commodity, must depend not upon the bullion value of gold as compared with commodities, but upon the quantity of that metal which is capable at the time of being offered in exchange for goods ; for it is the quantity of any article capable of being brought to market which determines its value, which, in the case of gold, is the price of commodities. Now, the quantity of gold capable of being offered in exchange is, they say, not

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a portion only, but the whole amount of that metal in the country not employed as plate and ornaments ; prices, therefore, depend upon the extent of this amount. We shall see that the establishment of this view is essential to the theory of the export and import of bullion, which is the grand foundation of the Act of 1844.

Adam Smith supposes that in any given state of the wealth of a nation, a certain amount of gold would be required to circulate its commodities. When just the amount of gold was employed as coin, the channel of circulation would be full.* If, while the commodities remained the same, and no change took place in the productiveness of the mines, the quantity of coin in any country exceeded this amount, the channel of circulation would become too full and would overflow ; the people would find that they had more money than they required, and that they could export a part to other countries. Here, again, is a difficulty. How can the people feel that the national channel is so full as to permit exportation, when they are constantly in the habit of

* Book ii. c. 2.

putting away their money in reserve to meet contingencies?—how are they to ascertain that they have put away enough for that purpose, and that they may safely export the remainder?

Adam Smith then considers what happens on the introduction of paper into the currency. He supposes a person of undoubted credit to establish a bank and to issue notes. The people would look upon these notes as money, and they would now find that the channel of circulation was too full, just as if more coin had been issued, and would be desirous of making use of part of their money abroad; and as the gold was money both abroad and at home, while the paper was money at home only, the gold would be exported and the paper would take its place, some small amount of gold only being required to be kept by the banker, to meet occasional demands for the conversion of the notes. The result would be the substitution of a very cheap for a very expensive mode of distributing the commodities of the society. The exported gold might be exchanged for provisions, and the materials of manufacture, and the wealth of the country would be increased. ‘Coin,’ says Adam Smith, ‘is like a

high-road which distributes the corn and other crops of the adjoining fields, but produces nothing itself; the substitution of paper in place of coin suspends this high-road in the air, and allows the ground which it formerly occupied to be used as corn-fields and pastures.'

If the bankers issue more notes than will supply the place of the gold which would have circulated if no notes had been in existence, 'the excess,' Adam Smith says, 'will constantly be returned to them. All the gold will, in the first place, go abroad, and the people then, finding they had too much money, and having no gold left to export, would bring the excess of notes to the bankers to be exchanged for gold, which could be sent abroad.' And he illustrates this position by the example of the Ayr bank, which was established in Scotland for the express purpose of extending the circulation at a time when many important undertakings were on foot, and when the enterprise of the country was supposed to be languishing for want of money. Many of the first noblemen in Scotland were partners in this bank, and their estates were worth several millions. There could be no doubt of the security on

which their notes were issued, nevertheless, the attempt to extend the currency utterly failed; the notes were constantly returned to the bankers, who shortly became bankrupt. Adam Smith also states, that both the Scotch banks and the Bank of England had for a long time been put to great expense in purchasing bullion to meet the demands upon them for gold, in consequence of their having issued too many notes.

Adam Smith points out that the circulation of every country may be divided into two branches; the circulation of the dealers with one another, and the circulation between the dealers and the consumers. Each requires a certain stock of money to carry it on, for both are going on at the same time. If the notes issued by bankers are for considerable amounts, the circulation of them will be confined to transactions between dealers; and the transactions between dealers and consumers, being for smaller sums, will be carried on by coin; and he advises that no notes should be issued for less than £5. As the Bank of England issued no notes below £5, the circulation, so far as the bank was concerned, might be said,

52 CONVERTIBLE NOTES EQUIVALENT TO GOLD.

according to Adam Smith's view, to consist entirely of paper, when she had issued notes enough for the circulation between the dealers. She might, therefore, have to buy gold if she issued too many notes, although there were still many guineas circulating in the country. Adam Smith observes, that the value of the goods circulated between the different dealers can never exceed the value of those circulated between the dealers and consumers; whatever is bought by the dealers being ultimately destined to be sold to the consumers. It would seem, therefore, that prices cannot, from merely currency causes, be high from an issue of paper, which circulates only among dealers, while the circulation between dealers and consumers is carried on by gold.

Adam Smith maintains that bank notes, which are paid in gold when presented, must be equal in value to gold, and that whatever is bought with such paper must be as cheap as if bought with gold. He does not allow that the increase of the notes can augment the currency, because a quantity of gold is always taken from the currency, exactly equal to the quantity of paper added to it; and he supports

this view by showing that the prices of articles had not been raised in Scotland by the establishment of many banks, and that prices were not higher, other circumstances being considered, in England, where bank-notes were in general use, than in France, where there were no banks issuing notes.* In this passage, Adam Smith evidently speaks as if prices depended upon the quantity of money capable of being offered for them; for he supposes that the notes, if they could have remained in circulation, would have raised prices.

A difficulty may here, perhaps, strike the reader. As the circulation of the larger bank-notes is confined to the wholesale dealers, how can an increase of these notes cause an immediate displacement of the coin, which circulates only between the dealers and consumers? It would seem that the increased amount of these notes would be taken to the bank and exchanged for part of the gold held in reserve, and would diminish that reserve without affecting the coin in circulation with the people. An excess of notes would, therefore, show itself in the

* Book ii. c. 2.

54 INFLUENCE OF BANKERS' RESERVES ON PRICES.

shape of a drain of bullion, and not by a rise in prices at home.

Now, we may naturally ask, while these changes were taking place with respect to the portion of bullion set apart by the nation for their internal circulation, what became of that part of it which was necessary for the adjustment of the foreign transactions? Had this, after the establishment of the Bank of England, come to be confounded with the reserve held by that bank for meeting occasional demands for payment of its notes?—and were some of the drains upon its treasure caused, not by over-issues of its notes, but by the adjustments of foreign transactions required by trade, quite irrespective of the state of the currency? Here we have a hint of some more of the difficulties of the currency question.

The position of the Bank of England at the time of the great recoinage, in the reign of William III., offers an opportunity for the application of the views which we have been considering. The bank-notes ought to have occupied the place which the coin would have occupied; they were, therefore, as much debased as the coin. When that coin was called

in and reissued of full weight, bank-notes must have still, in number, represented the worn coin. They must have existed to a greater amount than they could have done had they been issued in a currency of full weight; they ought, therefore, to have been depreciated when the recoinage was completed; accordingly, they fell to a discount of 17 per cent.* The Bank was obliged, on this occasion, to increase its capital and withdraw a large number of its notes before it could raise them to par, a circumstance which seems to show that the channel of circulation for £20-notes (the smallest notes then issued by the Bank) had, even at this early time, been quite filled by bank-notes, or the excess in the currency would have ceased of itself, by gold, to a certain extent, being driven out of circulation. It seems also, to show that it was the excess of notes, and not any want of confidence in the solvency of the Bank, which caused the notes to be at a discount. We should, however, mention that during the time when money was extremely scarce, before the recoinage was

* 'Lawson's History of the Bank,' p. 72, and 'Bullion Report,' p. 17.

completed, the bank was unable to pay its notes in full; it paid only 15 per cent. on notes presented for payment. At this time, too, the goldsmiths, who were opposed to the bank, collected its paper and made a sudden demand for payment, which the bank refused for the time, leaving them to seek their remedy at law.* These circumstances may have injured the credit of the Bank, and may be sufficient to account for the discount to which the notes had fallen. It may be mentioned that it was on this occasion that Exchequer bills were first issued; they were drawn for various sums, from £100 down to £5, and proved a most effectual substitute for money. They answered this purpose so effectually that it is said the Government proposed, at one time, to issue twenty and fifteen shilling bills.†

We can now see what would have been the fate of Law's scheme for coining notes on the security of land. So long as there had been any coin in circulation, it would have been displaced by the notes, and they would have maintained their value and remained in circulation, but so soon as all the coin was gone

* 'Macaulay,' vol. iv. p. 696.

† Ibid., p. 698.

they must have fallen in value, and those who held them would have demanded the land on the security of which they had been issued. The currency, therefore, would never have become more extensive than when metallic.

Adam Smith, in another part of his work, explains that what is called a loan of money is in reality a loan of capital. What the borrower really wants is, not the money, but the money's worth. By means of the loan, the lender assigns to the borrower his right to a portion of the annual produce of the land and labour of the country; and the quantity of capital to be lent at any time, in any country, is regulated, not by the value of money, but by the value of that part of the produce which, so soon as it comes from the hands of the producer, is destined for replacing a capital, and which the owner himself does not want to employ. The money, he says, is, as it were, but the deed of assignment which conveys from one hand to another those capitals which the owners do not care to employ themselves. Those capitals may be greater, in almost any proportion, than the amount of the money

58 THE POWER OF BANKS TO ASSIST MERCHANTS.

which serves as the instrument of their conveyance, the same pieces of money successively serving for many different loans as for many different purchases. Adam Smith maintains, which seems a necessary consequence of these views, that the rate of interest is not affected by changes in the amount of money, but in that of the capital to be lent.

Adam Smith seems to think that when banks have advanced to merchants, that part of the capital of their business which the merchants would otherwise be obliged to keep idle in their own hands to meet sudden demands, and when they have to the proper extent substituted paper for gold, they have done all that banking can do to assist commerce.* He appears surprised that the introduction of banks into Scotland should have caused so great an increase of prosperity as he acknowledges took place. Like most other economists, he is so anxious to prevent his readers from considering credit a producing power identical with capital, that he appears to have underrated the effect which credit has in producing wealth by facilitating exchanges.

* Book ii. c. 2.

Written forms of credit and the system of banking were, to the complex state of society now existing, what money was to the simple communities who first adopted the use of it. We shall find, too, that credit has the effect of allotting the capital of the society to those hands which are most capable of properly employing it.

Adam Smith makes no allusion to the probable influence of any written forms of credit on prices except bank-notes, which alone he seems to have considered as being in the nature of money, nor does he touch upon the effect of credit upon prices.

Mr. Hume agreed with Adam Smith that the quantity of gold and silver existing in any country is in itself a thing indifferent, and that in those cases in which populous nations in the enjoyment of plenty of commodities possessed but little money, this state of affairs resulted from the manners and customs of the people, who were satisfied with a simple style of living. When such a society becomes more refined, more exchanges are required and money increases ; but this is a consequence, not the cause, of the advancement.

Mr. Hume, however, thought that while an increase in the quantity of money was actually going on, industry would be quickened. He says: * 'In every kingdom into which money begins to flow in greater abundance than formerly, every thing takes a new form. Labour and industry gain life; the merchant becomes more enterprising, the manufacturer more intelligent and skilful, and even the farmer follows the plough with greater alacrity and attention.' His explanation of this phenomenon is, that 'when any quantity of money is imported into a nation, it is not at first dispersed into many hands, but is confined to the coffers of a few persons, who immediately seek to employ it to advantage. They engage more workmen than formerly, who never dream of demanding higher wages, but are glad of employment from such good paymasters. If workmen become scarce, the manufacturer gives higher wages, but at first requires an increase of labour, and this is willingly submitted to by the artisan, who can now eat and drink better. He carries his money to the market, where he finds every thing at the same price as formerly,

* 'Essay on Money.'

but returns with a greater quantity and of better kinds for the use of his family. The farmer and gardener, finding that all their commodities are taken off, apply themselves with alacrity to the raising of a fresh supply, and at the same time can afford to take more and better clothes from the tradesmen, whose price is the same as formerly, and their industry only whetted by so much gain.'

This argument is one of the strongest of those which are brought forward to prove that an increase of money promotes the general prosperity. We shall find it considered by several economists. At present it is only necessary to observe, that Hume here supposes that there are always some labourers unemployed ; for, if the first possessor of the increasing money had to take them away from his neighbour, he could not do so without at once offering them higher wages. Again, the argument requires the supposition that at every market there is a quantity of produce which is thrown away ; for if not, if the artisan has to get it away from some other customer, he at once raises the price. It is probable that this surplus of labour does always exist in this

country, but no corresponding surplus of commodities. An increase of money, therefore, is likely to benefit the capitalist employed in production, but not the labourer.

The system of banking and trade upon credit did not prevail so extensively on the Continent at this period as in this country. In 1719, Law established a bank of issue in France, for the express purpose of increasing the money of the country. This bank, shortly after it commenced business, became connected with the Mississippi Company, and was then transferred to the Government. In the course of the stock-jobbing operations which ensued, an enormous number of notes were issued. These notes were forced into circulation ; many payments were required by the Government to be made in them and not in coin. Gold and silver were permitted, even ordered, to be exported ; and, finally, an arrêt was issued forbidding any person to retain silver or gold in his possession to a greater amount than 500 livres. A very great rise took place on this occasion in the price of all articles ; but the bubble burst before sufficient time had elapsed to decide whether this rise was caused by the

spirit of speculation or by the actual extension of the currency. In less than three years the notes fell to a hundredth part of their nominal value.

The failure of the Mississippi scheme diffused in France a feeling of distrust in all banks, and no attempt was made to form a bank of issue in that country until the establishment of the 'Caisse d'Escompte,' or Bank of Discount, in 1776. Very few banks even of deposit existed in that country until a very recent period, and all payments, even between persons at a distance from each other, were made by the transmission of silver coin at a great expense. The 'Caisse d'Escompte' discounted bills in its own notes payable on demand in silver. It flourished for some years; it then became embarrassed by large loans to Government just before the Revolution, and was finally suppressed by the Convention in 1793.

In Holland and Hamburgh there existed no bank issuing notes, nor even any public bank employing its deposits in discounting bills. The banks of Amsterdam and of Hamburgh were banks of deposit in the strictest sense of the word, and all the gold and silver that was

64 INSTANCES OF DEPRECIATED CURRENCIES.

paid into them was understood to remain stored up in their vaults. The object of these banks was not to increase the amount of money, or to obviate the necessity of possessing a large amount of gold, but simply to meet the difficulty which occurred in countries, like Holland and Hamburgh, of great commercial business and small territorial extent, from the variety of coin of different countries which their extensive mercantile enterprises brought into circulation. This coin the banks received at its bullion value, giving credit for the amount in their books, and payments were made by transfers from one account to another. These banks also received deposits of uncoined bullion, for which they granted receipts, by the transfer of which payments were also made.

The notes issued by the Government of the United States of America, during the contest with the mother country, afford an example of the consequences of an extensive issue of paper. The notes first issued were equal in value to silver, but they became rapidly depreciated, and at length, when the amount of them had reached the sum of 400,000,000 of dollars, they ceased to circulate. Mr. Jefferson, taking

into consideration the state of depreciation which existed at the period of each successive issue, calculates that the real value given by the people for these notes was 72,000,000 of dollars. After the war the Government of the United States proposed to pay them off with 6,000,000 of dollars, that being the amount which they calculated that the then holders had given for them. Mr. Jefferson candidly admits that the difference between these two sums, amounting to 66,000,000 of dollars, had been lost on the paper by the successive holders of the notes. This, he says, was a real tax on the people of the United States, who actually contributed those 66,000,000 of dollars during the war by a mode of taxation the most oppressive of all, because the most unequal of all.*

It is hardly necessary to remind the reader of the great creation of paper money by the revolutionary Government of France. The celebrated assignats were originally issued as a means of making the national property immediately available. To avoid the delay which must have occurred before the price could be received on the sale of this property,

* 'Memoirs,' vol. i. p. 412.

notes were issued representing its value, which the officials who conducted the sales were bound to receive at their value from the purchasers. For some time the assignats maintained their value, but the number of them being very greatly increased, they became so depreciated that, at last, 500 francs in paper were given for a cup of coffee. Considering the extreme uncertainty of property of all kinds in France at this period, we should not be able to draw a safe conclusion as to the exact extent to which the assignats owed their depreciation to their number. The most remarkable fact connected with this financial expedient is that, though the whole of the silver coin, amounting, probably, to £100,000,000 sterling, entirely disappeared from the circulation, being sent abroad, according to Adam Smith's theory, yet there occurred no fall in the value of silver in other countries. This fact would seem to show that so large a sum as £100,000,000 of silver might be thrown upon the market without causing a fall in its value ; but we must remember that it is probable that much of the silver did not really leave France, though it left the circulation ; it was probably hoarded.

The notes which we have hitherto considered, professed (at least at the outset) to be promises to pay money, and might have sustained their value for a time from the hope that the promise would be performed ; but in some countries, paper money, in the proper sense of the word, existed at this time.

In 1768, the Empress Catherine II. of Russia established the 'Banque d'Assignat,' to issue notes payable to the bearer. It did not appear distinctly in which kind of metallic currency these notes were to be paid, but it was assumed that the meaning was that they were to be payable in the copper money of the country, which passed only in small payments, which was depreciated as regarded the silver money, and which could not be melted down or exported. In other words, they were not in reality payable at all in coin of any kind, and, of course, their value could not depend in any way upon that of coin. The amount first issued was only 40,000,000 of roubles, which was moderate compared to the whole circulation of the country, and they were ordered to be taken in all payments which had been agreed to be made in silver, and to be received in all pay-

ments to the State. Under these circumstances, they rose to a premium of five or six per cent. over the copper money; and in 1774, on the close of the war with Turkey, they were on a level with the silver money. In 1786, the Empress issued assignats on the security of land and houses, and carried the total amount of paper money up to 100,000,000 of roubles. From this time the assignats fell rapidly, though no difference was made with respect to the manner of their payment, and all the phenomena of a depreciated currency appeared. The foreign exchanges turned against Russia, the prices of all articles rose, and those who lived upon fixed incomes were reduced to great distress. In the number were included the employées of Government, whose salaries had been fixed by Peter the Great, and were not raised by a Government which did not acknowledge that its currency was depreciated; and to the necessities arising from this cause, are often attributed the universal corruption and dishonesty which were said to exist among the public officials of Russia.*

(Of the great commercial distresses of this

* 'Storch Economie Politique,' vol. iv. p. 196.

period, we have seen that the Mississippi scheme was connected with the issue of a great number of bank-notes. It is said that the success of Law's banking operations at the outset, and, perhaps, the stimulus given to trade by the high prices caused by the notes, gave birth to the state of excitement which led the French nation into such a wild course of speculation; but our own South Sea bubble, which occurred in 1720, was unconnected with any banking operations, and the ardour of the public was excited simply by vague ideas of the richness of the countries of South America, and of the advantages to be derived from a trade with them, which had just been opened up by a treaty concluded with Spain on the establishment of the peace of Utrecht. At this time, too, the excitement was more universal, and carried to a higher pitch than has been known since bank-notes came into common use.*

In 1763, many failures occurred at Amsterdam and Hamburgh. 'These failures,' says

* See 'Macpherson, Annals of Commerce,' vol. iii. p. 88, for an account of the extravagant projects and wild speculations of this time.

Macpherson, 'were attributed by some to the large sums owing by the French and British armies, and by others to the vast quantity of base money issued by the German princes during the war, for which the merchants had expected to receive the value, or at least a considerable portion of the value it was issued for.' He himself suggests that they might be owing, in addition to these causes, to the peace, in consequence of which the trade enjoyed by those neutral places during the war was drawn off. The commercial distress at this time did not affect this country; it is remarkable only as occurring in countries where no banks of issue existed, and where such discounts as were effected were made in coin. Another crisis occurred in 1772, which is attributed by Macpherson* to the spirit of launching into vast and boundless projects in commerce which were to be supported by artificial credit, and to gambling in the funds. We have seen that banking was, to some extent, connected with these events in Britain, in the case of the Ayr bank; but it is remarkable that the distress was again on this occasion

* 'Macpherson,' vol. iii. p. 524, 533.

very great in Holland, where this cause for it did not exist, though great numbers of private bills of exchange had, doubtless, been issued. Sir Francis Baring says, that the circulations from Holland were very large at this time.*

The period between the conclusion of the American war and the commencement of that with revolutionary France, is always described as one of great manufacturing and commercial prosperity in this country. The year 1791, and the earlier part of 1792 in particular, are distinguished by the historians of this period as eminently prosperous ; but in the month of November, 1792, many bankruptcies took place, and in March, April, and May of the succeeding year there occurred a commercial crisis of extreme severity. ‘Many houses,’ says Macpherson, ‘of the most extensive dealings and the most established credit failed, and their fall involved vast numbers of their correspondents and connections in all parts of the country. Houses of great respectability and undoubted solidity, possessing ample funds, which actually did, in a short time, enable them to pay every shilling of their debts, were obliged to stop

* ‘Pamphlet in defence of the Bank,’ p. 33.

72 RELIEVED BY ISSUE OF EXCHEQUER BILLS.

payment. Amidst the general calamity, the country banks, which were multiplied greatly beyond the demands of the country for circulating paper currency—there being 280, or, according to other accounts, 400 of them in England and Wales—were the greatest sufferers, and, consequently, the greatest spreaders of distress and ruin amongst those connected with them.’*

On this occasion Mr. Pitt, in consequence of an application from some of the principal merchants, appointed a commission for advancing Exchequer bills to the amount of £5,000,000 sterling, to such merchants, traders, and bankers, as should apply for them on security to be approved by the commissioners. This measure afforded immediate relief. Only £2,202,000 were advanced, the whole of which sum was repaid, and hardly any of those who received this assistance became bankrupt.

This commercial crisis, in particular, is constantly referred to as a striking example of the effects of unrestricted issues of bank-notes, though convertible for gold at the will of the holder, in extending the currency, raising

* ‘Macpherson’s Annals of Commerce,’ vol. iv. p. 267.

prices, and encouraging speculation. There are, however, many circumstances which seem to show that it is, at least, possible that this crisis might have arisen from other sources. The great prosperity which followed the close of the American war may be accounted for without supposing any extraordinary issue of notes. It was about this time that the system of internal communication by canals, commenced by Brindley, was brought to perfection. Arkwright's patent for spinning cotton expired in 1784, when his invention came into general use ; and Watt completed his improvement on the steam-engine about the same time. The introduction of the banking system itself, exerting only its legitimate influence on trade, must have had a powerful effect. There were thus many reasons why business should have been brisk ; and under these circumstances, it is not at all improbable that a spirit of speculation might have arisen without any previous enlargement of the issues of notes. The suddenness, too, of the rise in prices in 1792—though many banks had been in existence long before that year—seems to show that it was not caused by banking operations alone ; for if the

74 PROSPERITY WHICH PRECEDED THIS PRESSURE.

banks had possessed the power of producing these effects at will, they would probably have produced them before. Many circumstances, too, show that the distress was not caused by a mere collapse of bank paper. The first great increase in the number of bankruptcies occurred in November, 1792, just after the revolutionary war with France may be said to have broken out; for the British Ambassador had been recalled from Paris in the preceding August (though war was not declared by our Government until the ensuing January), a circumstance which must have given a shock to credit. Business was unusually checked by the timidity inspired amongst the holders of property by the spread of revolutionary doctrines. Commercial difficulties were at this time felt in the principal cities of the Continent in which no banks of issue existed; * and the first failures, and those which caused the prostration of credit, were of mercantile houses in London and Liverpool, who could not, apparently, have been the most closely connected with the country banks.† On the other

* 'Tooke, History of Prices,' vol. i. p. 178, note.

† 'Chalmers's Estimate,' p. 294.

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hand, against the country bankers, are the facts that so many of them failed, that the exchanges had declined in 1792, and bullion had been exported—circumstances which are said to prove that a redundancy of bank-notes must have existed.

CHAPTER III.

PERIOD OF INCONVERTIBLE BANK-NOTES.

Suspension of cash payments in 1797—Prices depended upon the number of the notes—The action of the Bank of Ireland—Sir F. Baring on the suspension—Mr. Boyd on the suspension—Mr. Thornton on paper credit—Results of the suspension in Ireland—Par of exchange in 1804.

WE now come to a most important event in the economic history of this country, namely, the suspension of cash payments by the Bank of England in 1797. ‘The great and continued drains of bullion,’ says Macpherson, ‘in consequence of the war, the loans to the Emperor of Germany, and other subsidies to foreign powers, and also the large sums payable for cargoes and freights of neutral ships taken,* and which the foreign owners required to be paid in bullion, had raised the price of gold, on the 8th of October, 1795, to £4 4s. per

* These were ships laden with corn, and bound for France.

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ounce; and, our gold coin being only £3 17s. 10½*d.* per ounce, it was evident that the current money of this country, consisting almost entirely of gold, would be carried abroad to a very alarming extent.* From these or some other causes, the amount of bullion at the Bank was not large when, in the beginning of 1797, the dread of an invasion from France, brought to a height by the landing of a few French troops in Wales, caused a run on the Bank for gold. The demand had been very great during the week commencing with the 20th February, 1797; and on the ensuing Saturday the directors, alarmed at the rapid diminution of their cash, applied to Government for directions. The King came to town on Sunday, when a privy council was held, and an order made forbidding the directors to issue any gold in payment until the sense of Parliament could be taken on the subject. This order was made public by the Bank on Monday morning, and a meeting of the principal merchants and bankers of London was held the same day, at which they passed a resolution to receive bank-notes in payment of money

* 'Annals of Commerce,' vol. iv. p. 407.

78 SUSPENSION OF CASH PAYMENTS IN 1797.

due to them, and to make their payments in the same manner. This resolution was afterwards adopted by more than 3000 of the principal merchants, bankers, and traders.

These transactions taking place while Parliament was sitting, a committee was immediately appointed to inquire into the state of the Bank, and the laws against the issue of notes under £5 were suspended. The committee reporting that the affairs of the Bank were in a satisfactory state, the order of council was confirmed by Act of Parliament,* and the restriction on cash payments continued to the 24th of June then ensuing. By this Act bank-notes were not made in express words a legal tender, it was merely declared that payments made in them should be deemed payments made in cash, if made and accepted as such, and parties tendering payment in Bank of England notes were exempted from the ordinary form of arrest for debt. The collectors of the revenue were also to accept payments in notes. In November of the same year, a committee was appointed to consider the expediency of resuming cash payments. This committee

* 37 George-III., c. 45.

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reported that the Bank was in a condition to resume its former manner of payment, which opinion was confirmed by a resolution of the board of directors to that effect. But the committee further reported, that no inconvenience had been felt from the restriction on cash payments, and that as the circumstances which had rendered the suspension necessary might again occur during the hostilities, particularly as it was the avowed intention of the enemy to attack us through our finances, it appeared advisable to continue the restriction until the conclusion of peace. The report of the committee was (may we say unfortunately) adopted, and the restriction extended accordingly, until six months after the conclusion of a definite treaty of peace.

After the first few days business went on as before the suspension. The credit of the Bank was not in the least shaken, and its notes circulated as freely as ever at their former value, or even, as it is said, at a premium for a short period. For a time gold continued in circulation with the bank-notes, but the number of guineas grew gradually less and less; and though some few remained, which were

80 PRICES DEPENDED UPON NUMBER OF NOTES.

used as presents, the fees of physicians, and the like, the currency, for all practical purposes, came to consist of paper only.

It is quite clear that the expectation of receiving gold on the arrival of so uncertain an event as the restoration of peace cannot have made the notes equivalent to gold. They must have circulated quite irrespective of this expectation, simply because those who took them believed they should be able to make their payments with them. Under these circumstances, the prices of commodities could have no connection with the value of gold; and there was, apparently, nothing to influence them but the number of notes. And here a very curious question arises:—Would prices depend upon the number of the one and two-pound notes which supplied the place of the gold which circulated between the dealers and consumers, or upon the whole amount of notes? It would seem, that if prices are settled by the transactions in the retail trade, they must be influenced by that part of the currency only which is essential to that trade, and would not rise until the gold had disappeared, and one

and two-pound notes had been issued to greater extent than the gold had existed.

It is to be observed that the Bank of England, in the hope of arresting the drain of gold, had greatly contracted its issues for some time before the suspension of cash payments. The average amount in circulation, for the three years ending December, 1795, having been 11,975,573, and the amount, in 1797, having been only 8,640,250, yet the price of gold was about £4 per ounce, and bullion was sent abroad even while complaints were made of the want of a sufficiency of circulating medium, and of a great fall in prices in consequence.* We shall see hereafter how important these facts are with reference to the question of the causes of gold leaving the country, and the propriety of attempting, in all cases, to retain it by contracting the currency.

Although there was no peculiar pressure for gold on the Bank of Ireland, the Parliament of that country authorized the Bank to suspend cash payments, for the sake of uniformity with what had occurred in England. The directors of the Bank of Ireland soon turned the privilege

* See Mr. Boyd's Pamphlet, p. 11.

to great advantage; their issues rose from £737,268, in 1798, to nearly two millions and a half in 1800.

The suspension of cash payments by the Bank of England gave the first impulse to the long discussions upon the currency, which, with occasional intervals, have continued to the present day.

Sir Francis Baring* observed, in a pamphlet in defence of the Bank, that gold was drawn from it for three purposes: as a medium of remittance to foreign parts; for the purpose of hoarding, from a want of confidence in the Government and in the circulating paper; and to supply the country banks while confidence in the Bank of England remained entire. He allowed that, when the foreign exchanges are unfavourable, every effort should be made to prevent the drain of gold; but while they are favourable, and the demand for gold arises from a shock to the system of credit in the country, the Bank should continue its discounts, as all the gold issued must speedily return to it when confidence is restored, and to withhold the supply

* 'Observations on the establishment of the Bank of England, and on the Paper Circulation of the Country,' (1797).

only increases the evil. Thus, in 1793, when the exchanges were in favour of this country, the moment that confidence was restored by the grant of the Exchequer bills to the tottering houses, the danger ceased. In 1797, the Bank had to stand simultaneously the drain caused by unfavourable foreign exchanges, and that originating in a desire to obtain guineas to hoard, through fear of invasion—a demand such as could be met by no stock of gold which the Bank could possibly keep. Sir Francis Baring advised that the suspension should be continued while any dread of invasion existed, lest credit should be again subject to revulsion. He allowed that the value of the bank-notes depended upon their number, and he proposed that this number should be limited, to ensure them from depreciation, a precaution which had also been suggested during the debates in the House of Commons on the Restriction Bill.

The price of many articles becoming very high shortly after the suspension of cash payments by the Bank, people began to consider the two circumstances as connected. The amount of bank-notes issued was kept secret ;

but Mr Boyd,* in 1801, attempted to prove the great probability of an increase of them sufficient to cause the rise in prices. He seemed to think that at all times prices depend upon the amount of bank-notes and specie, and that there could be no doubt that they depended upon the amount of the notes since the restriction ; for these notes had become by that measure, 'the elementary means of circulation, communicating its influence to the whole paper circulation of the country, which turns round it as a common centre.' Mr. Boyd apparently meant, that even allowing prices to depend upon the amount of the whole circulating medium, including in that term the bills of exchange as well as notes and coin, the extent of that circulating medium now depended upon the quantity of bank-notes, as it had formerly upon the quantity of gold in the country.

Mr. Boyd supported his opinion that the currency had been enlarged, by showing that the market price of gold had been constantly

* 'Letter to the Right Honourable Mr. Pitt, on the Influence of the Stoppage of Issues of Specie at the Bank of England, and the Price of Provisions and other Commodities.' By Walter Boyd, Esq., M.P.

above the Mint price, and the exchanges permanently against this country, facts which he considered to indicate a depreciated currency, though he allows that both these circumstances may arise for a short period from other causes.

Shortly after the time at which Mr. Boyd wrote, it became known that the Bank of England had increased its issues about three millions and a half. Sir F. Baring, in some observations upon Mr. Boyd's pamphlet, points to this sum as a triumphant refutation of his arguments in consequence of its complete insignificance. Sir F. Baring evidently did not consider notes as forming the basis, but merely a part of the whole system of paper credit, and his observation implies that he supposed prices to depend upon the amount of the whole of this mass of paper credit.

About the beginning of the century, we suffered from a succession of bad harvests, and the price of corn rose to a very high pitch, wheat reaching 156s. a quarter, and barley 90s. These enormous prices must have stimulated our merchants to make large importations, and, in addition to these inducements, they were

offered a bounty by the Government.* We may assume, then, that large importations were made; and we may perhaps assume, too, that they were paid for in gold, as payment in bullion is the usual mode of meeting large importations of corn. Yet there does not seem to have been any difficulty in finding the means to make these purchases, notwithstanding that the Bank no longer afforded a store of gold; nor is there any record of a peculiar pressure upon the mercantile classes, or an unusually high rate of interest in consequence of the withdrawal of so much capital in the shape of gold.

In 1802, Mr. Thornton, one of the Bank directors, published his 'Inquiry into the Nature and Effects of the Paper Credit of Great Britain,' his object being, apparently, to show, that the Bank directors were aware of the dangerous nature of the power with which they were entrusted, and that they would be careful not to abuse it. His work contains many important remarks upon the influence which the nature of the circulating medium exerts

* 'Tooke, History of Prices,' vol. i. p. 22.

upon the mercantile and monetary transactions of a nation.

After showing that credit forms no addition to the capital of the country, Mr. Thornton says that credit is the confidence which exists between merchants, and induces them to sell goods in consideration of an equivalent promised at a future period. This commercial credit is the foundation of paper credit, paper serving to express that confidence which is in the mind. The multiplication of paper securities serves to enlarge, confirm, and diffuse that confidence among traders which in some measure existed independently of paper, and would, to a certain degree, remain were paper abolished. He states that the precious metals, when coined, are no longer to be considered as commodities, but merely as a measure of the value of other articles (he seems to think this view of the nature of money essential to the theory that prices depend upon the extent of the currency). He considers bills of exchange, promissory notes, and bank-notes, to be forms of paper credit, and that they came into use in the order above-mentioned as confidence increased

amongst merchants. He maintains that bills of exchange circulate commodities like money ; but he allows that they effect fewer payments in the same time than bank-notes, because, as they bear interest, the holder has no special inducement to part with them. They will, therefore, circulate more slowly, and a greater amount of them than of bank-notes will be required to give the same prices. He seems, indeed, to think that, while bank-notes and bills circulate together, prices are regulated by the amount of the notes only.

Mr. Thornton is the first author who gives any hint that prices depend upon the state of credit ; but he supposes that credit acts upon prices only through the circulation. He considers that prices depend upon the quantity of any medium for the time actually employed in circulating commodities, that whatever increases the reserve of notes or of guineas, which bankers keep by them, lowers prices, for it destroys the action of a part of the circulating medium, while a high state of confidence raises prices, because men keep less reserves, both Bank of England notes and gold being hoarded only in times of distrust. The crisis of 1793,

he says, is an example of this. There were not at that time fewer bank-notes than usual in circulation, and as soon as confidence was restored by a loan of Exchequer bills, that is by a loan of Government credit—for the crisis was not relieved by a loan of money, the want of money was no longer felt.

It may strike the reader that, as Mr. Thornton considers the confidence which is in the mind to be the cause of sales, he should attribute the number of those sales and the state of prices to the extent of that mental confidence, and not to the amount of the circulating medium for the time actively employed, which is a mere consequence of the existing state of confidence. It would seem to be more consistent with his views to suppose that, in times of distrust, it was the want of confidence, and not the diminution of the currency by hoarding, that caused low prices. We shall find the supporters of the Bank Act of 1844 adopting Mr. Thornton's views, and maintaining that the fall in prices which has sometimes taken place during a commercial panic, without any previous reduction of Bank of England notes, is, in reality, caused by a contraction of the currency,

brought about by hoarding ; while their opponents maintain that it arises only from the shock given to credit. The reader will observe that Mr. Thornton does not allow that the notes, when kept in reserve by bankers, have any effect on prices, at least in times of distrust.

Mr. Thornton says, a large issue of notes by the Bank of England raises prices in the following manner :*—The traders in the metropolis find that there is an increased facility in obtaining notes for bills. This inclines them to enlarge their speculations. Everybody becomes eager to buy and unwilling to sell, and thus prices may rise, though no large speculations exist, and the increase in the eagerness of each buyer may be trifling. When the number of notes is lessened, exactly opposite effects are produced.

When Mr. Thornton wrote, bank-notes were issued for one and two pounds, and no gold remained in circulation ; but it may, perhaps, occur to the reader to consider how far this process of raising prices, as described by Mr. Thornton, could go on, while the circulation

* p. 193.

between the dealers and consumers was, as supposed by Adam Smith, conducted by gold. How far could the paper circulation, in the hands of the dealers only, be enlarged and affect prices? Would not a stop be put to the rise because the dealers would find the consumers unable to pay the enhanced price, their circulation not having been enlarged? Would not the rise in prices amongst the dealers be caused simply by speculation, and last for a short period only, the affair being an extension of credit and not of currency?

Mr. Thornton, in opposition to Adam Smith, maintains that a currency of notes, convertible at will for gold, may be depreciated by too copious an issue below the value of a metallic currency, and that prices will be raised by such depreciation. It is, he maintains, this rise in prices, and not the filling of the channel of circulation, which turns the exchanges against us, raises the market price of gold above the Mint price, and drives gold out of the country. He says that it is not possible for the channel of circulation to become too full, as stated by Adam Smith. Every increase of paper enhances the price of goods of all kinds,

which advanced price affords employment for a larger quantity of circulating medium, so that the circulation can never be over full. But the advanced price of goods is the same thing as a reduced price of coin, and it is because coin has thus become cheap that it leaves the country in which the issue of notes has taken place, and goes to others in which there has been no such increase of the currency, and in which the coin, therefore, bears the same relation to commodities as before. Mr. Thornton maintains, however, that this cheapness of our coin may be occasioned by other causes than an increase of the currency—anything which gives rise to a balance of debt against us will produce it. He supposes, as an example, that the harvest has been bad, and that we have made unusually large importations of corn from Hamburgh. The exporters will draw bills on London and offer them for sale in their own country. The persons in Hamburgh who want to sell London bills for Hamburgh money will be more in number than those who wish to buy bills on London; or, in other words, to sell Hamburgh coin for London bills. The price of Hamburgh coin,

therefore, rises as compared with English money which the bills represent. Gold becomes dear in Hamburgh as valued in English money ; gold, therefore, will be sent abroad, the foreign bullion will be collected in the first place, and when that is exhausted, guineas will be melted down and exported.*

Such a depreciation will be accompanied with a rise in the market price of gold, as well as with a fall of the exchanges. When the coin is thus rendered cheap, bullion is not rendered cheap too ; coin is cheap because it is part of our circulating medium, the whole of which has been relatively depreciated. Bullion is a commodity, and nothing but a commodity, and rises and falls in value on the same principle as all other commodities. In the case of an unfavourable exchange, we are to consider coin as falling below its proper worth, while bullion retains its accustomed price, and hence arises a difference between the Mint and market price of gold.† We shall find that Mr. Thornton is supposed to be in error here, and that it is said that no difference can arise between the Mint and market price of gold, while the notes are

* p. 123.

† p. 202.

convertible for gold, but that all the bullion in the country is lowered in value by the same causes which lower the price of coin. This is a very important question, because, on some occasions, when the currency has been said to be greatly depreciated, there has been no rise in the market price of gold, though the exchanges have been against us.

In another passage, Mr. Thornton says, a succession of bad harvests, or the necessity of making large payments abroad, as subsidies to foreign powers and the like, may give rise to a balance of debt against us, which must be discharged in gold. The fair statement of the case, he says, seems to be this:—At the time of a very unfavourable balance, produced through the failure of the harvest, the country has occasion for very large supplies of corn from abroad, but the goods which we have to export are not in such demand abroad as to afford even a tolerable price; the country from which we import corn being, to a certain degree, eager for payment, but not in the immediate want of all that supply of goods which would be necessary to pay the balance, prefers gold, at least in part, for gold can always be turned

to a more profitable use than a very great overplus of any other commodity.* Mr. Thornton is supposed here to mean that we have a debt to pay independently of all considerations as to the state of the currency, to discharge which we must send a part of our capital, and that gold is the cheapest and most convenient form in which that capital can be sent. Whether the exportation of gold, in the event of a bad harvest, is a payment of this kind, or a result of the state of our currency, is one of the disputed points in the currency question which will be repeatedly noticed.

Mr. Thornton allows that a reduction in the amount of bank-notes will facilitate the return of gold which has been exported, because such a reduction will raise the value of our whole currency, and make our coin dear at home. It will also lower prices, and induce our merchants to diminish their importations and foreigners to buy our goods, thus increasing our exports; but he deprecates any great or sudden reduction of the notes. He says, that as the greater part of the notes of the Bank of England circulate in London, and a large

* p. 131.

portion of these are in the hands of the bankers, through whom all large payments are made, and who keep no more of them than experience, after all their endeavours to economise them, has shown to be just sufficient, a very small reduction in the amount of the notes in circulation may produce very great results; a diminution of one-third or two-fifths might, perhaps, by checking the power of the bankers to assist their customers, be sufficient to produce a very general insolvency in London. Gold would in such a case be hoarded, and would not reappear until confidence had been again restored by the previous introduction of paper of some kind. Such a crisis as this, however, could not be allowed to occur; whether much or little gold were in the country, steps would be taken to induce the Bank to issue its usual quantity of notes.*

In order to induce the country from which we have imported the corn to take all its payments in goods, the Bank might have to reduce its issues so much as to produce a very great fall in prices, and trade and manufactures might be exceedingly depressed. Again, the

* Such a crisis occurred in 1847.

favourable effect produced by the contraction of the bank issues on the exchanges is certainly not instantaneous, and they might rectify themselves in the ordinary course of trade before the reduction of the bank paper could have any effect. It might also be necessary for the contraction of the bank paper to be so large that it might, perhaps, annihilate the whole of the country bank paper (by destroying the credit of the bankers), and in that case the Bank of England would have to supply gold for this paper, and thus a fresh demand for gold would be created. For these reasons, it may be the true policy of the Bank to permit gold to leave the country for a time, and to a certain extent; and it must, in that case, increase its loans to the extent to which its gold is diminished. The Bank ought to be provided with a fund of gold so ample as to be enabled to pursue this line of policy with safety to itself.

Mr. Thornton maintains that the country banks have no power over the extent of the currency. If the country banks enlarged their issues, prices would rise locally, and parties would buy in places where the rise had not

taken place; to do which they would require the local paper to be exchanged for a paper of general currency, *i. e.* for Bank of England notes. However much the country banker might wish to enlarge his circulation, he would be restrained by being compelled to exchange so many of his notes as were excessive for Bank of England paper.

Mr. Thornton agrees with Mr. Hume, that while money is increasing the apparent success of every mercantile and manufacturing transaction gives spirit to new enterprise; that it is probable that prices increase faster than wages, and that thus some stock is created at the expense of the labourers; but he maintains that the increase of commodities will not keep pace with that of the paper.

The subject of the depreciation of the currency was taken up the following year by Lord King, Sir Henry Parnell, Mr. Foster, and others, who called the public attention to what was occurring in Ireland, where the issues of notes had been increased, as we have seen, in a much greater degree than in this country. The exchange between Dublin and London had become unfavourable to Ireland to an

unusual extent, and an exchange had sprung up between Dublin and Belfast, in which latter town guineas continued to circulate, as the people of the north of Ireland, being dissatisfied with the Government, refused to take the notes of the Bank of Ireland. Guineas, too, were sold openly in Dublin at a premium, and in a short time, the depreciation became so great, that even the worn Irish silver coin became more valuable than its estimated proportion of the depreciated notes. It disappeared from the circulation, and a new race of small bankers arose, who issued notes for shillings and sixpences. Many of these bankers were small tradesmen, who never troubled themselves to keep any reserve to ensure payment of their notes,* and are said to have sometimes offered to cash them with the goods in their shops; they were, in fact, mere coiners, who were saved the trouble and expense of false dies.

These occurrences in Ireland are very important. We shall find it argued that the exchanges were against us, and that the gold disappeared from England only because of a

* 'Foster, on Exchanges.'

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great demand for that metal for the Continent. Now this demand, if it existed, would not have affected Ireland to a greater degree than England. The apparently greater demand, therefore, which existed for gold in Ireland, must have been entirely due to the operations of the Bank of Ireland; and it is a fair inference that the apparent demand for gold in England arose from the conduct of the Bank of England.

Mr. Foster mentions, that in 1753, long before the Bank restriction, and while the notes were convertible for gold, an exchange of three per cent. had been established against Ireland in favour of England by too large issues of notes by the Dublin bankers. The consequence was, a large export of gold to England, and in the succeeding year, the failure of the banks which had issued the paper, a reaction of the exchange in favour of Ireland, and an entire substitution of gold for paper.*

This instance, as given by Mr. Foster, apparently affords very strong evidence in favour of the power of bankers to extend a currency of convertible notes at will, for no mention

* p. 175.

is made of the prevalence of any speculative mania on this occasion amongst the people. But we must remember the account of these events is given by a person prejudiced in favour of a particular view, and, perhaps, not aware of the importance of stating all the circumstances of the case. It is not said that the extension of the currency by the bankers on this occasion was accompanied with a general rise in the prices of goods; and it is remarkable that no mention is made by these authors of any great rise in the price of commodities in Ireland at the time at which they wrote. If the currency of that kingdom had really been more depreciated than that of England, the general rise in the price of commodities must, we should suppose, have been greater there than in England.

In 1804, the exchanges came again nearly to par, and the market price of gold fell to about £4 per ounce, in which state affairs remained for nearly five years. As there was no remarkable change in the currency to account for this event, the amount of notes of £5 and upwards in circulation being less than that in 1802, by about a million only, a reduction

which seems far too small to have produced so marked an effect on the exchanges, it is inferred by Mr. Tooke and others, that the high prices which had occurred previously to this period were not caused by the issues of the Bank, but arose from natural causes affecting the individual articles only. Mr. Tooke's opponents, however, would not admit this. We shall see they would account for this fall in the price of gold by the good harvests of the preceding three years, which had increased the amount of commodities to be circulated, thus reducing the redundancy of the currency. It seems to be assumed that the place of the gold, as it continued to flow out of the country, was, at least, fully supplied by the issue of one and two-pound notes. If that had not been the case, then the continued efflux of gold would, of itself, have restored the equality between the Mint and market price of that metal.

CHAPTER IV.

THE BERLIN AND MILAN DECREES.

The orders in council—Mr. Fox on Political Economy (note)—The Berlin and Milan decrees—Mr. Ricardo on the high price of bullion—Mr. Ricardo's gold mine—Mr. Ricardo, why gold is exported—Mr. Ricardo, increase of money and the rate of interest—The Bullion Committee—Was gold dear on the Continent?—Power of the Bank to issue notes—Mr. Huskisson on the depreciation of a currency—Mr. Bosanquet and Bullion Committee—Mr. Ricardo and Mr. Bosanquet—Mr. Bosanquet's definition of a pound—Mr. Thornton on the general rise of prices—Lord Castlereagh's definition of a pound—Mr. Rose's estimate of the extent of the currency—Mr. Rose, increase of prices in France—Lord Castlereagh, evils of rapid changes in the currency—Prosecution of De Yonge—Fall of prices in 1813—Mr. Tooke on the fall of prices in 1813—Rapid rise and fall in the price of gold in 1815—Price of gold and large issue of notes in 1817—Mr. Ricardo's Principles of Political Economy—Resumption of cash payments in 1819—Difference between capital and money—No serious extension of the currency during the war—Extent of the currency during the war.

On the occupation of Hanover by the Prussians, in 1806, and the exclusion of British shipping and commodities from its ports, a

notice was issued by our Government to neutral powers, stating that means had been taken to place the rivers Ems, Weser, Elbe, and Trave, the outlets of Prussian commerce, in a state of blockade, which blockade was soon afterwards extended to the whole coast, from the Elbe to Brest. In retaliation, Napoleon issued the celebrated Berlin and Milan decrees, declaring that all commerce with the British Islands was interdicted; that all letters directed to England, or to an Englishman, should be seized; that every subject of England found in the countries occupied by his troops and those of his allies, should be made prisoners of war; and that all property belonging to English subjects should be good prize, and all English manufactures, to whomsoever they might belong, should be confiscated.

In consequence of these decrees, orders in council were issued by the British Government prohibiting all trade from one port to another in the possession of France or her allies, or so far under her control that British vessels might not freely trade there,* and subjecting all the

* 'Annual Register,' 1807, p. 672.

ports and places of France and her allies, or of any other country at war with England, and all other ports and places of Europe, from which the British flag was excluded, to the same restraint in point of trade as if actually blockaded.

An immediate consequence of these proceedings was a quarrel between England and the United States respecting the rights of neutral vessels, and all intercourse between these two countries ceased.

It is now well known that by these orders in council, we were in fact furthering Napoleon's views; but Political Economy was but little understood by the statesmen of these times.*

The writer of the historical division of the 'Annual Register' for 1806, which was not published until 1808, states that the Berlin and Milan decrees soon became perfectly harmless and inoperative; that some slight and

* Mr. Butler happened to mention to Mr. Fox that he had never read Adam Smith's celebrated 'Wealth of Nations.' 'To tell you the truth,' replied Mr. Fox, 'nor I either. There is something in all these subjects which passes my comprehension; something so wide that I could never embrace them myself or find any one who did.'—'Butler's Reminiscences,' vol. i. p. 170.

temporary embarrassments were experienced from them at first, but that in a short time their existence was known only by the bribes given to the generals of division and custom-house officers for omitting to enforce them. These decrees and our own orders in council were indeed systematically disregarded by the Governments which issued them. Licences were granted by both parties for the transmission of goods between the forbidden ports; even corn was imported into England by permission purchased from Napoleon. The general result, however, of these measures, and of the cessation of intercourse with America, was a great check to trade, and a change in its character and direction. Raw produce, and the materials of manufacture in this country, and on the Continent, manufactured articles and colonial produce, rose very much in price. The expense of importing hemp, tallow, and timber was increased tenfold, the freight and insurance of these articles from the Baltic were from £20 to £30 per ton. Raw silk was sent from Italy to England through Russia and Turkey, and was more than a year on the road. At the same time, there was so great an accumu-

lation of colonial produce in our warehouses, and on the Continent so great a scarcity of it, that the price of sugar was with us 6*d.*, and on the Continent from 6*s.* to 8*s.* a pound, and other articles of colonial produce in proportion.*

Very shortly after these occurrences, in the beginning of 1809, the exchanges became suddenly very unfavourable to this country, and the market price of gold rose to £4. 10*s.* and even to £4. 13*s.* per ounce. The controversy on the state of the currency was immediately renewed; many pamphlets were written on the subject, and it attracted the attention of Parliament.

Mr. Ricardo commenced the second part of the discussion by his 'High Price of Bullion a Proof of the Depreciation of Bank-notes.' He maintained that the precious metals employed in circulating the commodities of the world, have been divided in certain proportions among the different civilized nations of the earth, according to the state of their commerce and wealth; and, therefore, according to the number and frequency of the payments which they

* 'Tooke's History of Prices,' vol. i. p. 309.

have to perform ; that while so divided, the precious metals preserve everywhere the same value ; and as each country has an equal necessity for the quantity of them actually in use, there can be no temptation offered to any for their exportation or importation.

If any nation increased in wealth as compared with others, a greater proportion of the money of the world would be allotted to it. If any nation lost a part of its wealth, it could not retain the same quantity of the circulating medium that it before possessed ; a part would be exported and divided amongst the other nations of the world, till the usual proportion was established.

While the relative situation of countries continued unaltered, they might have abundant commerce with each other, but no money would pass, as it would have the same value in all countries, all transactions would be settled by bills of exchange.

If, under these circumstances, says Mr. Ricardo, a mine of gold were discovered in any country, the currency of that country would be lowered in value, goods would rise in price, and gold would flow from that country to the rest

of the world. If, instead of the gold mine, a bank were established, whose notes fulfilled the office of gold, the circulating medium would, in like manner, be enlarged and lowered in value; goods would rise proportionately in price, and the equilibrium between that and other nations would have to be restored by the exportation of a part of the coin.

Mr. Ricardo maintains that gold is never exported except in cases where this equilibrium has been disturbed, and the currency of one country become redundant as compared with that of some other. He rejects Mr. Thornton's suggestion, that gold is exported in the event of a bad harvest, because it is the most convenient form in which we can transfer the necessary amount of capital, and because other nations are unwilling to receive payment in commodities. He says, if we give coin in exchange for goods, it must be from choice, not necessity; we should not import more goods than we export, unless we had a redundancy of currency, which it therefore suits us to make a part of our exports. The exportation of coin arises from its cheapness, and is the cause, never (as Mr. Thornton supposes) the effect of an

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unfavourable balance. We should not export if we did not send it to a better market, or if we had any commodity which we could export more profitably. It is a salutary remedy for a redundant currency, and the demand for our coin abroad arises only from the comparative deficiency of the currency of the importing country, which there causes its superior value. (By a salutary remedy for a redundant currency, Mr. Ricardo means that it would reduce our currency to its proper level.) Mr. Ricardo carries this theory so far as to maintain that even subsidies to foreign powers will not be paid in specie, unless our currency be redundant as compared with that of the country to which the payment is to be made.

When our harvest is bad, Mr. Ricardo maintains that England is in the position of a country which has lost part of its wealth. The currency, which was before equal to her payments, would now become superabundant. Prices would rise at home, and the currency would be cheap in proportion to that of other countries.

The reader will see that Mr. Ricardo is the originator of those views which we mentioned

in our account of Adam Smith's work, as being opposed to the opinions held by that writer. Mr. Ricardo considers all the bullion in the country to be money, and applicable for the purchase of commodities. He cannot allow that any portion of the precious metals possessed by the nation can be used, as Adam Smith supposes, only for purposes of international adjustment or as bankers' reserves, without in every case affecting internal prices. There is certainly great force in Mr. Ricardo's argument, particularly if the bullion which Adam Smith supposes to be set aside for the above purposes should consist, as would now be in great part the case, of the coin of the realm. Economists consider that the value of any article, depends upon the supply of it known to be capable of being brought to market, and that supply appears to include these reserves. We shall, however, see good reason for supposing that these reserves do not in fact influence prices. This is one of the chief points in the discussion, which arose upon the passing of the Bank Act of 1844.

Mr. Ricardo seems also to have considerable difficulty to meet, when applying his theory to

the case of a bad harvest. It has been found,* that when any article of vital importance, such as corn, becomes scarce, its value, when compared with other commodities, rises more than in proportion to the diminution of the quantity. We should, therefore, expect, that a larger quantity of a currency such as ours, consisting of pieces of bullion of full weight, would be required when our harvest is bad. Mr. Ricardo seems to get over this difficulty by supposing, that even money of this kind is but a sign of value, and that the prices of commodities reckoned in such a currency, depend as completely upon the number of pieces, without any reference to their bullion value, as if those pieces were mere paper. It is only on this supposition that there appears any possibility of considering, that prices depend upon a comparison of the whole number of pieces with the whole of the commodities, and that a destruction of part of the commodities necessarily raises the price of the remainder.

Mr. Ricardo shows that an increase in the quantity of money has no permanent effect upon the rate of interest, the absence of any

* 'History of Prices,' vol. i. p. 13.

such effect having been set up at this time, as a proof that the currency was not increased. He shows that the rate of interest depends upon the supply of loanable capital, materials, food for labourers, &c., in the market, and not upon the amount of the money in which they are valued ; but he allows, that while money is increasing the rate of interest will be lowered. During the interval between the increase of money and the consequent rise in prices, there would be a sensible abundance of money, and the rate of interest would fall. Mr. Ricardo agrees with Mr. Thornton that the issues of the country bankers depend upon those of the Bank of England, upon the ground that if their issues were increased, their notes would become less valuable than Bank of England notes, and would be exchanged for them.

In the next year, 1810, a committee of the House of Commons was appointed, on the motion of Mr. Horner, to inquire into the causes of the high price of gold bullion, and to take into consideration the state of the circulating medium. This committee is celebrated in the annals of the currency, as the bullion

committee, and those who support its views as bullionists. It numbered amongst its members Mr. Horner, Mr. Thornton, and Mr. Huskisson.

The committee addressed their inquiries, in the first place, to the opinion then prevalent, that the high price of gold arose from the scarcity of it, caused by an unusual demand upon the Continent of Europe for the payment of the armies and for the purpose of hoarding. They stated that there did not appear to be, in reality, any rise in the price of gold on the Continent; commodities were no cheaper there, and in those countries where the measure of value was silver, and gold only a commodity, its price was not raised. The great supply of gold which had been sent to the Continent from this country must, they alleged, have satisfied the demand for the armies. They maintained that there was no evidence of a scarcity of gold bullion even in this country, though the coin had disappeared; and they referred to the experience of former wars, during which there had been no suspension of cash payments and no scarcity of gold, and they stated that silver had risen in price in

proportion to the gold, though no scarcity of that metal was alleged. They therefore inferred that gold had disappeared from our currency because of large issues of notes by the Bank.

It is, however, evidently very difficult to ascertain whether gold was unusually dear on the Continent at this epoch. Many causes, in such disturbed times, would influence the price of commodities. The comparison with silver is not to be depended upon as a proof that there was no such increase of price, because the same causes which created a demand for gold would, to a considerable extent, influence silver. Nor is the fact that in former wars there was no such demand for gold abroad, conclusive, for there never had been a time at which the hoarding of gold on the Continent was likely to have been carried on to the same extent as at this time. On the other hand, there is no evidence to show that a scarcity of gold was felt in Europe; prices were not unusually low on the Continent. It is inconceivable, too, that any demand for the Continent could have so completely stripped us of our gold coin unless the state of the currency had facilitated the process.

Most of the witnesses examined before this committee, attributed the great fall in the exchanges which had recently occurred, to the disturbance of the usual commercial relations of this country with the Continent, in consequence of the Berlin and Milan decrees. The committee allowed that this might have been the original cause of the fall of the exchanges ; but they maintained that the extension of the currency by the Bank, was the reason why there had not been the usual recovery from such a fall. Before the restriction on cash payments, the exchanges, they say, would have been restored by the transmission of guineas, which would have caused a contraction of the circulation, and consequent fall in prices. The continuance of the low rate of exchange and the high market price of gold, taken together, they considered an infallible sign of a depreciated currency.

The Bank directors, and some of the merchants examined before this committee, stated that, in their opinion, there could not be an excess in the issue of bank paper so long as it was issued on the discount of good bills, growing out of real commercial transactions,

and having but short periods to run. The bank-notes, say the directors, will return if not required, because no one will pay interest for them if he do not want to make use of them.* The committee dissent from this position if the notes be inconvertible; but they agree with Adam Smith, that if the notes be convertible at will for gold, the Bank directors cannot produce much excess in the circulation, without having their notes returned upon them for specie. When notes are issued in discount of a bill, the operation is, at first, an advance of so much capital; but so soon as the notes are exchanged for goods, they fall into the channel of circulation, and form so much circulating medium, and are an addition to the mass of the currency, any given portion of which is depreciated as compared with commodities. If the addition were made by notes convertible into specie, this diminution of the relative value of any given portion of the whole mass, would speedily bring back upon the bank which issued the notes as much as was excessive (the committee do not say why the notes would come back, but they evidently

* p. 33.

seem to think they would return before they affected prices); but if the notes are not convertible, they will remain in circulation until the bill is paid. In the mean time, they perform the functions of currency, and before they come to be paid in, they have been followed by a new issue of notes in a similar operation of discounting. Each successive advance repeats the same process. If the amount of discounts is progressively increasing, the amount of paper which remains out in circulation over and above what is otherwise wanted for the occasions of the public will progressively increase also, and the money prices of commodities will progressively rise.

The reader will note how much slower the process of depreciation and the rise in prices will be, when the notes are issued by a bank to their customers in the ordinary course of business, than when they are issued by the State and directly employed in the purchase of goods.

There is nothing in the report of the committee confirmatory of Mr. Ricardo's view, that bullion can never be exported except when the currency is depreciated. On the contrary, they allow that circumstances totally unconnected

with the state of the currency will cause an exportation of the precious metals, but this will not continue for any length of time unless the currency is depreciated.

The committee elicited from the Bank directors, that they had not been in the habit of attending to the state of the foreign exchanges or the price of gold, in regulating the issue of their notes. The directors stated, that their principle was to look to the amount already advanced to the individuals asking discount, to the solidity of the paper, and the appearances of its being wanted for commercial purposes.

The committee reported in favour of resuming cash payments.

Shortly after the publication of the bullion report, Mr. Huskisson wrote a pamphlet on the subject of the supposed depreciation of bank-notes, which is remarkable, as showing the injurious effects which that eminent statesman supposed that a progressive fall in the value of money would produce upon the national prosperity. He says, to lower the standard of the currency by an act of the State, though practised in less enlightened periods, is

now justly reprobated and condemned, as too disgraceful in its principle and too ruinous in its policy to be resorted to, even by Governments the most arbitrary in their internal administration and the most destitute of more substantial resources. Yet this injury once done, the extent of the evil would be known ; prices at home and abroad once accommodated to the change in the value of our currency, all uncertainty and consequent speculation upon a further disarrangement would cease. Creditors, annuitants, and all who possessed incomes fixed in amount by a contract of any description, would be able to measure the extent of their loss. All future leases and bargains for time, would be made with a reference to this definite alteration in the common measure of all exchangeable commodities. The existing evil (meaning the depreciation of bank-notes) is indefinite, uncertain, and fluctuating, though progressive in its growth. It has, consequently, a greater tendency to discourage and unsettle all the transactions of society, and to depress the labouring classes, and all who derive their incomes from salaries or wages of any description. It increases the expenses of Government,

and adds to the amount of the annual loans and taxes. A saving, it is true, accrues to the State from paying the wages of valour, talent, industry, and labour, in a depreciated currency, and from the reduction which is thus made in the value of the dividend paid to the public creditors ; but these savings to the State are more than counterbalanced by its increased expenditure, and the increased taxation necessarily consequent upon it, doubly aggravates the evil on those classes of the community at whose expense these savings are made, by taking from them a large proportion of their already depreciated incomes for the payment of all the other charges of the State. Mr. Huskisson denies that the landed or mercantile interest will be benefited by the continuance of the depreciation. The landholders, whose lands were in lease, would be direct losers, and a check would be given to the granting of leases which would prevent the improvement of their estates, nor could the increased rent which they received be a real gain, for it would not be exchangeable for more commodities than they would have before received. As to the commercial class, some have, no doubt, obtained

more easily credit upon the discount of mercantile securities ; but it is a doubtful question whether the mercantile body of the country, considered in the aggregate, has reaped any substantial advantage from the superabundance of paper. The mercantile and manufacturing classes, he admits, are not necessarily exposed to the same injury as is cast upon the other classes of the community ; but let them remember all the ties with which they are connected with those classes, and that the durable prosperity of the one cannot be built upon the distress of the other.

The bullion report was immediately attacked by two classes of opponents—first, by the disciples of Law, who were far from being extinct in England, and who considered an abundance of money of any kind the great source of national prosperity ; and, secondly, by those who denied the existence of any increase of the circulating medium, and the correctness of the statements and reasonings of the committee. Of these latter opponents, Mr. Bosanquet, one of the directors of the Bank of England, was the most able. He endeavoured, in his ‘ Practical Observations on the Report of

the Bullion Committee,' to show that the theory contained in that report was not borne out by the facts of the case. Mr. Bosanquet was followed, step by step, by Mr. Ricardo, in his 'Reply to the Practical Observations on the Report of the Bullion Committee.' We can notice but one or two of their arguments.

Mr. Bosanquet said, that the Bank could not increase its issues beyond the legitimate demands of trade, because merchants never come to the Bank of England for discount, until money is so scarce that they cannot get it elsewhere. As soon as the amount of notes in the hands of the public exceeds their ordinary wants, they employ them, not in purchasing commodities, but in discounting the best bills. The demand for notes at the Bank then ceases, for these bills are no longer taken to the Bank of England for discount, and the payment to the Bank of the bills already discounted by it causes its notes to return to it, and thus their number is diminished. Upon this Mr. Ricardo observed that the excess of notes immediately begins to cause a depreciation of the currency and a rise in prices, which, by extending the nominal amount of all

transactions, gives rise to a demand for nominally higher discounts, requiring a larger issue of notes. He says:—‘Let it be supposed that a bank of undoubted credit is established in a country whose circulation is wholly metallic. Let such a bank discount bills with its notes, and make advances to Government. According to Mr. Bosanquet, their notes ought immediately to return to them as soon as issued, because the circulation being already sufficient for the commerce of the country, no additional currency could be employed. If the principle advanced on behalf of the Bank were true, not a note could have been kept in circulation before the restriction, nor would the discovery of the mines of America have added one guinea to the circulation of England. The additional gold would, according to this system, have found a circulation already adequate, and in which no more could be admitted.’

In this pamphlet, Mr. Bosanquet certainly failed to show, that it was impossible to increase a currency by the issue of inconvertible notes. In a second edition, he even acknowledged that the gold contained in a guinea was, at that time, of more value than twenty-one fortieths

of a two-pound note, and that, in fact, gold was no longer the standard of value. He allowed that, under these circumstances, it was not easy to say what was the standard of value; and he proposed that the interest of £33. 6s. 8d. Three per cent. Stock should be considered as the standard pound—a ridiculous proposal, for what was to measure the £33. 6s. 8d. but allowing that bank-notes were no longer equivalent to the gold they represented? Mr. Bosanquet denied, with more success, that the currency had been increased by the Bank of England; that it was depreciated in the ordinary sense of the word, that is, was of less value than formerly when compared with commodities; it was the gold that had become scarce. This is a most important phase of the question, to which we shall soon recur.

About this time there occurred a great amount of commercial distress, and many failures took place; these events may readily be accounted for, not only by the check which had been given to trade by the measures of Napoleon, but by the rash speculation which had taken place on the opening of the market

of Brazil about this time ; they were, however, sometimes attributed to the fear of a contraction of the currency in the event of the adoption of the bullion report. The distress on this occasion was not of long continuance.

In the following year, 1811, Mr. Horner moved a series of resolutions, founded upon the report of the bullion committee, to the effect that bank-notes were depreciated as compared with coin, that the depreciation was caused by the excessive issue of the Bank of England, that the exchanges were unfavourable in consequence of the depreciation of the currency ; that it was the duty of the directors of the Bank of England to look to the state of the foreign exchanges as well as the price of bullion, with a view to regulate the amount of their issues, concluding with a proposal to resume cash payments in two years.

Mr. Horner's resolutions were supported by arguments so similar to those which we have already examined, that it is unnecessary to repeat them ; we shall refer only to one passage in the speech of Mr. Thornton, the author of the work on paper credit. Mr. Thornton insisted upon the gradual and continual rise

which it was allowed had taken place in property of all kinds, whether land, houses, shops, or commodities, as strong evidence of a depreciation in the value of money, arising from its existence in greater quantity than before the restriction on cash payments.

Those members who took the opposite side of the question were obliged to acknowledge that Bank of England notes were no longer equivalent to coin, and they were driven to definitions of the existing standard even more absurd than that of Mr. Bosanquet. Lord Castlereagh described it as 'a sense of value in reference to currency as compared with commodities.' They rested their opposition to the bullionists upon two most important grounds —(1) that though Bank of England notes might be depreciated, as compared with gold, the amount of the currency had not been increased, and that therefore the high prices of commodities could not be a consequence of the Bank Restriction Act; and (2) that to make our currency dependent on the foreign exchanges at a time when they were subject to such very great fluctuations, far from rendering our standard of value steady, would have the

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effect of making it to the last degree uncertain.

Mr. Rose observed in support of the first of these points, that since the suspension of cash payments, there had been a very great increase in the amount of commodities to be circulated, requiring an increase of currency, instead of which he affirmed that the currency was not then so large as it had been in 1798; he estimated the amount of guineas in circulation in 1798 at 35,000,000, and the amount of them in circulation in 1811 as not more than 3,000,000. To so great an extent had gold disappeared from the currency, that in Mr. Rose's county out of £426,000 collected in taxes, only £476. 8s. were paid in specie. The Bank of England notes amounted in 1798 to 11,278,000, and in 1811 to 23,000,000. Thus the total currency in 1798 amounted to 46,278,000, and in 1811 to 26,000,000 only, making the currency in 1811 less than that in 1798 by 20,000,000. (There is no doubt that Mr. Rose's estimate of the guineas in circulation in 1798 is far too high.) Mr. Tooke,* from a comparison of many estimates by various

* 'Tooke's History of Prices,' vol. i. p. 133.

persons, supposes the amount of guineas before the suspension to have been about 22,000,000, and a half only; this would still leave an excess of 13,000,000, and a half in favour of the currency of 1798; but Mr. Rose neglects the country bank-notes on both occasions. The amount of country notes in 1811 was about 21,000,000. The amount of country bank-notes in 1798 is nowhere stated, but it must have been much less than 11,000,000, as no one-pound notes were then issued by the country bankers. If we take it at 5,000,000, a probable amount, we shall have the currency in 1811 exceeding that of 1798 only by 3,000,000, no large amount considering the great increase of commodities to be circulated and the great increase from natural causes of the prices of many articles.

As to the general rise in the price of all articles mentioned by Mr. Thornton, Mr. Rose stated that he had ascertained that the price of commodities had gradually increased in France since the commencement of the war, as it had done in this country; and he quoted a statement contained in a report of the Agricultural Society of Paris in 1805, that in most

of the departments the price of labour was increased since 1789 by one-third, while in a few it was doubled; that all the instruments of cultivation were raised in proportion, building materials from a third to a fourth, beasts of labour about one-half, and all the articles requisite for the maintenance of the farmer's family in the same proportion. He mentioned also that M. Daru,* in a speech to the Legislative Assembly in January, 1810, observed that the revenue appointed to Louis XVI. and afterwards continued to Napoleon, was no doubt very considerable, but that if attention were paid to the real value of money at that time and at present, it would not be thought an extravagant assertion that the same income did not, at the time at which he was speaking, represent more than two-thirds of what it had done in the time of Louis XVI.

With regard to the second point, Lord Castlereagh observed, 'To what an extent of mischief must it not lead, so long as the foreign exchanges, and with them the price of the precious metals, are convulsed by the

* 'Tooke,' vol. i. p. 336.

violence of the enemy, should the scale of value within the country be made to undergo similar variations. The value of property would become so uncertain, that no man could judge one day what he would be worth the next. The quantity of circulating medium must be so enormously and so rapidly reduced as to throw everything into confusion, yet such must have been the result had the Bank Restriction Bill not been passed. 'Why,' he asks, 'should we throw away the benefit experienced under that bill, by voluntarily inflicting on ourselves the mischiefs it was intended to obviate?'

It seems to have been supposed at this time that the suspension of cash payments facilitated the raising of the public loans. Mr. Horner's motion was treated as an attempt to embarrass the Government, the affair became a party question, his resolutions were rejected, and others, opposed both to the facts advanced by the bullionists and to the inferences drawn from them, and including a distinct declaration that Bank of England notes were at that time equivalent in value to the legal coin of the

realm, were proposed by Mr. Vansittart, supported by the Government, and carried by a large majority.

We have seen that the Act of Parliament by which cash payments were suspended, did not make bank-notes a legal tender, but merely prohibited the Bank from paying them in gold, declared they should be received in payment of taxes, and protected persons offering them in payment from arrest. On one occasion since the passing of the Act, payment of a country bank-note had been demanded in gold, and it was held by the Judges that the demand could not be resisted. About this time the fall in the value of the notes became too apparent to be overlooked, and further alterations in the law became necessary. A person named De Yonge was prosecuted for buying guineas, but acquitted on the ground that bank-notes were not coin. Lord King also gave notice to those of his tenants whose leases were prior in date to the suspension, that he should demand their rents in gold. Under these circumstances, Lord Stanhope brought in a bill making it illegal to give more money for guineas than their lawful value, or to take bank-notes at a

value less than they purported to be equal to, and making bank-notes a legal tender in the case of a distress for rent; this Act was to be in force only until 1812. The bill passed after much discussion, and was afterwards continued and extended to Ireland, the general opinion being, that however objectionable the Act might be in principle, it was necessary under the circumstances. The reader will observe, that even now Bank of England notes were not expressly made a legal tender, so reluctant were the Government to allow that they were depreciated, or that force was requisite to compel the public to take them.

In 1813, the Dutch ports were opened, on the approach of the termination of the long struggle with France, and our harvest being good, there occurred a great fall in the price of corn, and numerous bankruptcies took place amongst the country bankers. These events were attributed by those economists who consider that all variations of price are caused by changes in the currency, sometimes to the preparations made by the Bank of England to resume cash payments, which compelled the country bankers to reduce their issues, and

sometimes to the repayment of a large portion of the debt due from Government to the Bank, by which means a part of the bank-notes, which had been employed in payment of wages and the like, was taken from that employment and lent to merchants, in whose hands they were not considered so efficient in supporting prices.

Mr. Tooke, however, in his 'History of Prices,' maintains that prices began to fall before any reduction took place in the issues of the country banks, that so far from the Bank of England having contracted its issues in preparation for a return to cash payments, these issues were actually enlarged at this time ; and that during earlier periods of the restriction on cash payments, very large reductions of the advances to Government had not lowered prices ; but, on the contrary, had sometimes happened to coincide, in point of time, with a very great rise in prices ; and that, in fact, the greatest increase of advances by the Bank to the Government was coincident with the fall of prices in 1813 and 1814.* Mr. Tooke infers from these facts that prices fell on this occasion from causes independent of the currency. The

* 'History of Prices,' vol. ii. p. 42.

economists of Mr. Ricardo's school agree with Mr. Tooke, so far as to allow that the fall in the price of corn on this occasion arose from the abundant harvest and the opening of the ports, circumstances which increased the supply of commodities to be circulated, while the extent of the currency remained, for the time, the same as before. But this fall in the price of corn, they say, ruined some of the farmers, who, in their turn, ruined some of the bankers, and threw discredit on the whole of them. In the crash which followed, a great amount of country paper was destroyed, and the whole currency of the country diminished, notwithstanding the increase of the Bank of England notes, and to this diminution of the currency, they attribute the general fall of prices and the reduction of the market price of gold nearly to its Mint price which shortly afterwards took place, circumstances which could not, according to their theory, have occurred while the amount of the currency continued unchanged. The only difficulty which we have in accepting this view is, that as the restriction on cash payments continued for a considerable time after these events, there seems no reason why

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the country bankers should not have recovered themselves and again restored the high prices, if those prices depended upon the extent of their issues.

On the conclusion of peace with France, in 1814, the market price of gold was five guineas per ounce ; by March, 1815, it had fallen to £4. 9s. ; but on the arrival of the news of Napoleon's landing in France from Elba, it rapidly rose again to five guineas per ounce, and the exchange fell at once ten per cent. This state of affairs continued during the hundred days of Napoleon's power. After the battle of Waterloo, the price of gold fell back proportionately ; and in the course of the following year it was £3. 18s. 6d. per ounce. During the whole of this period there was but little variation in the numerical amount of the notes.* Mr. Blake, whose opinion in favour of the existence of a difference between the Mint and market prices of gold whenever the currency is depreciated, we have noticed, and who was at that time a firm supporter of the views of the bullion committee, changed his opinion in consequence of these events. He was satis-

* 'Tooke,' vol. ii. p. 33.

fied that, in this case,* the gold was raised for the time by the demand above the level of the currency, and afterwards fell back to it; and if in this case, why not in others that occurred previously, when the same disturbing forces were in action?

It is, no doubt, impossible to account for the sudden rise in the price of gold on this occasion, on any supposition connected with the state of the currency; but it does not follow that it was caused by a demand for gold at the time; it might probably have been caused by the mere anticipation of a return to that state of affairs, in which gold had been worth five guineas an ounce. The rise and the fall in the price of gold seem too sudden to have been caused either by the state of the currency, or, as Mr. Blake supposes, by a real demand.

In 1817, the issues of the Bank of England reached the highest amount which they attained during the restriction. The market price of gold, however, remained but little above the Mint price; so little, indeed, that the Bank directors undertook, by public notice,

* Blake, 'Observations on the Expenditure of Government,' &c., p. 21.

to pay their notes in gold, and issued, in consequence, above £5,000,000 before they found that it would not remain in circulation.*

About this time Mr. Ricardo, in his 'Principles of Political Economy and Taxation,' gave a further development to his theory of the distribution of money between different countries. He stated that the commodities of two countries will interchange with each other by barter in certain proportions, according to the facilities which each country possesses for their production; that the prices of these commodities in each country, to which prices alone merchants look, must be such that they may be exported and imported in these proportions; and that the extent of the currency of each country must be such as will give these prices. Whenever, therefore, prices are above this level in either country, money must leave it, and must come to it when they are below the proper limit.

At length, in the year 1819, the Act of Parliament,† familiarly known as Peel's Bill, was passed, by which the Bank was directed to

* 'History of Prices,' vol. ii. p. 57.

† 59 Geo. III. c. 49.

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resume cash payments in May, 1823. At this time the market price of gold was about £4. 1s. per ounce, about three or four per cent. above its Mint price. By this Act the melting down and exportation of coin was permitted, and our gold coin thus rendered as nearly as possible identical with pieces of bullion. As the Act restraining the issue of notes of less than £5 had been suspended until two years after the expiration of the Bank Restriction Act, the issue of those notes would cease in 1825. The Bank directors found no occasion to avail themselves of the whole of the delay allowed by the Act. They resumed cash payments in 1821, and ceased, after that time, to issue notes for less than £5. Up to this time they adhered to the opinions which they had expressed in 1810, and they now passed a resolution formally denying that the Bank could obtain a favourable turn of the exchanges and an influx of gold by reducing its issues.*

When cash payments were resumed, the average amount of the notes of the Bank of England above £5 was about 17,000,000, and

* Appendix to the Report of the Committee of 1819, and quoted in Lord Overstone's Remarks.

of the notes under £5 between seven and eight millions. Those small notes were replaced, in the next two years by nearly 12,000,000 of sovereigns; and the amount of the notes above £5, though somewhat less than at the time of the resumption, was not diminished to the extent to which the amount of the sovereigns exceeded that of the small notes,* some few of which remained in circulation. So far as the Bank of England was concerned, there appears to have been no diminution of the currency, and there seems to have been no reason to suppose that, at this time, any further diminution took place in the notes of the country banks.

The evidence taken before the committee of the House of Lords on this occasion, affords an example of the tenacity with which the people of this country, in spite of all the efforts of the economists, cling to the idea that credit is directly productive of wealth, and that it is encouraged by an abundance of the currency. Mr. Ricardo was asked, may not a man get credit from a bank on the security of his capital which is profitably employed, whether

* 'Appendix to the Bank Charter Report in 1832,' p. 80.

vested in stock or in land ; and may he not, by means of that credit, purchase or create an additional quantity of machinery and raw materials, and pay an additional number of labourers, without dislodging capital from any existing employment in the country ? He answered, 'Impossible ! An individual can purchase machinery, materials, &c., with credit, he can never create them ; if he purchase, it is always of some one else, and, consequently, he displaces some other from the employment of capital.' In answer to another question, Mr. Ricardo observed, 'I have no notion of credit being at all effectual in the production of commodities—commodities can be produced only by labour, machinery, and raw materials, and if these are to be employed in one place, they must necessarily be withdrawn from another. Credit is the means which is alternately transferred from one to another to make use of capital actually existing ; it does not create capital, it only determines by whom that capital shall be employed.'* The reader will observe, that Mr. Ricardo does not allow that

* Quoted by Mr. Macculloch ('Economy', p. 128), from the Lord's Report.

capital may be lying idle, and may be set in motion by credit. We shall see that the notion that credit may be extended by increasing the currency, and that the result is an increase in the production of wealth, still has a strong hold upon public opinion.

What opinion are we to form as to the real state of the currency during the war? In what sense and to what extent was it depreciated, and was it possible or politic to continue to pay in cash?

There seems to be no doubt of the correctness of the theory of the bullionists, what they believed to have occurred might have happened. The experience of every nation which has tried a paper currency, not convertible for gold, proves that paper money, if issued in excess, loses its value, gold rises in price, and the exchanges become unfavourable. Our bank-notes had become to a great extent mere paper money, they might have been issued in excess, and it is clear that they were no longer of equal value with the gold which they represented. But we have seen a depreciation of the currency may mean two things, either that money is more abundant and less valuable, as

compared with commodities in general, than it used to be ; or that it is less valuable as compared with the gold which it represents, without any reference to the value of commodities. The currency may have been increased beyond its usual extent by the issue of notes, or the notes may have merely kept up the currency to its usual amount, by supplying the place of the gold which has become scarce. This distinction is very important ; if the bank-notes existed only to the amount to which a mixed currency of gold and notes, such as we had before the suspension, would have existed for the time being under the circumstances, had gold not become scarce, the return to cash payments, in 1819, could not have affected prices in any way. Gold would have come out of the hoards and taken the place of the notes, as in 1797, the notes had taken the place of gold, and no difference would, on either occasion, have been made in prices or in contracts.

The phenomena upon which the bullionists founded their theory would still have occurred—the market price of gold would still have exceeded its Mint price, and the exchanges

would have been against us, for if a portion of all the gold in the world were destroyed, or, what is the same thing for currency purposes, concealed, the gold which remained in circulation would rise in value as compared with commodities, unless the amount of them was similarly reduced. The currency of all those countries which retained a gold circulation would be reduced, and prices would fall. Now, if we had adopted a paper currency, which had just supplied the place of the currency partly gold and partly paper, which we had before the destruction of gold, a pound sterling of our money would continue to represent a certain portion of the original quantity of gold, while the Continental coins which used to be equivalent to our pound sterling, would now represent a portion of the reduced and more valuable gold, and would be more than equivalent to our pound sterling, which would be represented by a smaller portion of the foreign gold. The exchanges would turn against us, and the market price of gold here would rise above the Mint price, the market price being reckoned in a currency of the value of the original gold, and the Mint price, or the number of coins

made out of a given quantity of metal at the time, being evidently reckoned in the reduced gold.

It must be allowed that an extensive hoarding of gold was probable at this time. We know that for long after the conclusion of peace, large quantities of guineas continued to be brought to the Bank of England, and the inducements to hoarding on the Continent were far greater than in this country. There certainly are, then, circumstances which afford a probable explanation of the phenomena without reference to an extension of the currency, and we must therefore allow great weight to the evidence offered by Mr. Rose, to show that there really was no such extension. The imprudence of the bankers in 1815 and 1816 may have accelerated the equalization between the Mint and market prices of gold; but even if the bankers had been able to reduce their issues in proportion to the lower prices of corn, a reduction which would have been no diminution of the currency as compared with commodities, it seems probable that the gold would soon have fallen nearly to the Mint price.

Mr. Thornton's statement, indeed, that the price of all kinds of property had steadily risen in this country since the commencement of the war, seems, at first glance, conclusive in favour of a continual increase in the currency. But we find that prices rose equally on the Continent, where there was no suspicion of any increase of the currency. This important fact, stated by Mr. Rose, and confirmed by M. Say in his '*Cours Complet d'Economie Politique*,'* is very difficult of explanation. It seems to show that our currency had not necessarily been increased, since prices had risen in other countries, where no increase of currency was supposed to have occurred. But what, then, caused the universal rise of prices? All economists agree that a general rise of prices cannot take place without an increase in the proportion of the currency to the commodities to be circulated by it. Is it possible that the production of commodities abroad had been so diminished, that the precious metals bore a less relative value to them? At this time, with an increasing industry and an increasing population—as was the case with France, at least—

* Vol. ii. p. 433, edition Guillaumin.

this supposition is hardly possible. Had the precious metals actually increased in France faster than commodities? This supposition seems equally inadmissible. There must, then, have been some change in progress, rendering these metals more effective in circulating property, perhaps by supporting a larger and a larger amount of credit. If this change were in progress at this time in France, it must have been so, at least to an equal extent, in this country, and will account for a considerable portion, at least, of the rise in prices, without requiring the supposition of an increase in the number of bank-notes beyond the amount of a gold currency in ordinary times.

Unless we can place implicit faith in the theory of Mr. Ricardo, that gold never leaves the country except when the currency is redundant, we must also allow great weight to the observation which we have quoted from the speech of Lord Castlereagh, upon the evils which might have resulted from a currency fluctuating as rapidly and as violently as the foreign exchanges. It does not seem to have been possible for the Bank by any contraction of the currency to have prevented these adverse

exchanges. Mr. Tooke says, that the price of sugar here was 4*d.* per pound, and on the Continent it was 4*s.* or 5*s.* Could the Bank, by any restriction of the currency, have so increased this difference of price as to have compelled the exportation of sugar instead of bullion? It is clear that the Continent must have been effectually shut against us, or the difference between 4*d.* and 4*s.* would have caused exportation. It seems clear, too, that Napoleon's measures did affect the exchanges to such an extent, that a currency which followed them, had that been possible, would have lost all claim to be a standard of value by which men could regulate their transactions.

Upon the whole, perhaps, we shall not err if we decide that there is not evidence sufficient to prove, that the currency was seriously extended during the restriction upon cash payments, nor, on the other hand, to show that it was not extended at all. The system pursued by the Bank directors in conducting their discounts, giving an opportunity for the return of the notes in the manner mentioned by Mr. Bosanquet, and the frequent repayments out of the produce of the repeated loans of the advances

made by the Bank to the Government, which, in like manner, caused a return of notes to the Bank, seem to have enabled us to escape a great part of the danger with which we were threatened, while we enjoyed the great advantage of a steady currency, free from those rapid changes which would have taken place had our exchanges, as appears most probable, been exposed to great variations, and our currency compelled to follow them. At the same time, it is not possible, perhaps, to suppose that there existed no depreciation whatever from the former value of our currency, when the interest of the State, of merchants, and of the Bank, united to encourage a large issue. Our astonishment is, indeed, excited that the depreciation should have been so small; that during more than 20 years the Bank, if she really possessed the vast power over the currency usually attributed to her, did not employ it more actively, and that her notes, when once issued, and having once affected prices, should, under any circumstances, have returned to her. We should certainly be inclined to infer, from the experience of those times, that the power of a bank issuing convertible notes, to extend the

currency must, to say the least, be, in practice, very limited indeed.

The general opinion at this time was, that the currency had been less valuable during the restriction than formerly, by the difference between the Mint and market prices of gold, and serious thoughts were entertained, in 1819, of reducing the national standard of value, which were abandoned, partly from the difficulty of deciding upon the proper amount of the reduction, and partly from the consideration that any reduction would be unjust.

It is remarkable that no difficulty was experienced by our merchants in carrying on their trade with other nations during this period, though they no longer had a stock of bullion kept for them at the Bank, by means of which they might adjust their foreign payments; no inconvenience indeed of any kind was felt from the substitution of paper for gold, and, if the Bank directors had so ordered their issues as to keep the Mint and market prices of gold on an equality, it seems that no objection whatever could have been urged against the paper currency, except its liability to forgery, and

we should never have heard of the currency controversy.

As it seems extremely doubtful whether our currency was really augmented during the restriction to such an extent as to produce any effect on prices, it is hardly necessary to enter into the arguments which have been brought forward to prove that the prosperity which we are said to have enjoyed during the war, was due to the extension of our currency. One remark, however, may be made, namely, that assuming the existence of a depreciation of the currency, it had not had the effect of benefiting the labouring classes; for, notwithstanding the demand for men to supply the army and navy, and to carry on the increasing manufactures and the improved agriculture, the poor were great sufferers. It is at this time, when our currency is said to have been greatly depreciated, that the system of paying part of the labourer's wages out of the poor-rates arose, a system which was, in fact, an extension of those poor laws which were first introduced on the occasion of the great increase of the currency in the reign of Elizabeth, a coincidence

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which seems strong evidence that a rise in prices, caused by a depreciation of the currency, is injurious to the working classes.

The reader will not fail to notice the smallness of the sums which are supposed to extend the currency so as seriously to affect prices ; an addition of three or four millions is considered sufficient to raise prices 20 or 30 per cent.

CHAPTER V.

MOTION TO REPEAL THE ACT OF 1819.

Motion to repeal the Act of 1819—Mr. Attwood—Scarcity of gold during the restriction—Sir A. Alison on the scarcity of gold—Mr. Attwood, increase of money and the working classes—Mr. Tooke on Mr. Attwood's views—One and two pound notes allowed for ten years—The panic of 1825—Partial repeal of the usury laws—The prosperity before the panic—Measures to prevent the recurrence of the panic—Small notes prohibited—Drain of gold in 1830—Committee on the Bank Charter in 1832—Management of the circulation—Lord Overstone, and Mr. Norman—The country bankers and the issue of notes—Changes proposed by the Committee—Drain of gold in 1837—Mr. Palmer and Lord Overstone—Lord Overstone, the cycles of trade—The currency should vary as if metallic—Lord Overstone's theory of a metallic currency—The convertibility of the notes—Do prices depend upon bank notes alone?—Do notes in reserve affect prices?—Lord Overstone's theory not generally accepted—Evidence that ordinary prices are not due to it—The Bank Act of 1844.

SHORTLY after the resumption of cash payments, a severe fall occurred in the price of all agricultural produce. As the corn laws, passed in 1815, proved on this occasion so ineffective in keeping up prices, the agriculturists began

to suspect the influence of the recent change in the currency ; they drew the attention of Parliament to the subject, and Mr. Western moved for a committee to examine the effect of the bill of 1819 on 'the Agriculture, Manufactures, and Commerce of the Kingdom,' with the express object of obtaining an extension of the currency, until the price of a quarter of wheat should reach 80s. From this time the currency unfortunately became again a warm party question. Those who could see no force in the arguments of the bullionists during the suspension of cash payments, and who supported the Government of that day in maintaining that the currency was not depreciated, now suffered themselves to be persuaded, that a most extraordinary diminution in the value of money had occurred at that time. It would occupy too much space to enter into any detailed examination of the arguments brought forward in favour of Mr. Western's motion. We must confine ourselves to the views expressed by Mr. Attwood, his most powerful supporter, and the founder of what, from his being at this time member for Birmingham, has been celebrated as the Birmingham school of political

economy, whose disciples considered an extension of the currency the only hope of the nation. Mr. Attwood maintained, that the fall in prices had not affected agricultural produce alone, but had been general, and he referred, as proof of this assertion, to a table compiled by Mr. Tooke, of the price of thirty articles, from which he showed that there had been an average fall of 45 per cent. in their price. This fall in price must, he maintained, have been occasioned either by a great increase in the quantity of all produce, or a diminution in the quantity of money, and the latter supposition must be the true cause, for it was impossible to believe that the quantity of so many different commodities had been increased, that all labour had become suddenly more skilful and efficient. He then entered into an examination of the connexion between the reduction in the amount of the currency and the extent of the fall in prices. He estimated that the £5 notes had been reduced by about 5,000,000, that is, by somewhat between a fourth and fifth of the whole amount; as, however, prices had fallen to the extent of one-half, he endeavoured to show that there were many articles whose price

156 SCARCITY OF GOLD DURING THE RESTRICTION.

consisted in great part of taxation, and, therefore, could not be lowered; they, consequently, required as much currency as before, leaving less than a fair proportion of the diminished currency to circulate the other articles, such as corn, which were not taxed, and which, consequently, fell in price more than in proportion to the contraction of the currency. This argument is ingenious, but Mr. Ricardo has shown that the increase of price, caused by taxation, does not require more currency; the tax merely transfers the consumption of the articles, and the money to pay for them, from the people to the State.* Mr. Attwood maintained,† also, that the difference between the Mint and market prices of gold was no criterion of the value of that metal, as compared with commodities; that during the restriction on cash payments, the general disuse of gold in the country, by taking away one great demand for that metal, lowered its value, as compared with commodities, and that, on the other hand, the sudden demand for so large a quantity as was required for coin in this country, on the

* 'Political works,' p. 127.

† 'Hansard,' vol. vii. p. 386.

resumption of cash payments, enhanced its value. The theoretical correctness of this view is generally acknowledged, but it is doubted whether the extent of the change in the demand for gold, was sufficient to cause any perceptible effect on the value of the large mass of that metal in the world ; we have seen, too, that the practice of hoarding, carried on during the war, in all probability more than counterbalanced any extra supply of gold thrown on the market of the world by our abandonment of cash payments.

This theory, that the difference between the Mint and market prices of gold is no criterion of the amount of the depreciation during the war, is a favourite with the advocates for an abundant currency. Sir Archibald Alison does not hesitate to estimate the depreciation of the currency as compared with commodities at 75 per cent. He says, that bank-notes never were depreciated as compared with gold, whatever party spirit might affirm to the contrary, but that the value of the whole currency, gold and notes, was depreciated 75 per cent, as compared with commodities.* Now, this

* 'History of Europe,' vol. viii. p. 89.

amounts to saying, that the abundance of gold in the market in consequence of our ceasing to use it as currency was so great, notwithstanding all the demand for that metal for the armies and for hoarding, that its value fell 75 per cent. as compared with commodities. The obvious extravagance of this position is sufficient to render it unworthy of our notice, except as showing us to what an extent men's minds are warped with respect to this subject by prejudice and party feeling.

Mr. Attwood did not, at this time, argue that an increase of money promoted industry; he allowed that it was of little importance to the wealth of a nation, whether its property and commodities were exchanged at a high or low moneyed price; nor did he consider that the mere existence of low prices occasioned the distress which he considered to prevail; that arose from the fact that the same amount of money then possessed a different signification from that which it possessed when contracts were made. Money had kept accounts falsely, and had given to one man the property of another; of the debtor to the creditor, of the tenant to the landlord, of the landlord to

public and private annuitants, and to those that had incumbrances on their estates.*

Mr. Tooke† maintained that, extraordinary as it might appear to Mr. Attwood, the fall in prices on this occasion was really caused by an abundance of commodities. There is certainly nothing wonderful in abundance being the consequence of renewed peace; but the complaints of distress about this time were so general that they must, we should suppose, have had some foundation. If abundance of commodities really existed, it is not unlikely that, until trade had found its proper channels, the interchange of the commodities was impeded. This is, indeed, the most rational explanation, and the one which is now, perhaps, most usually given by economists of the feeling of distress so unexpectedly experienced on the termination of the war. But if this check to business existed, what became of the money? Was a large part of it kept in idleness while low prices were current? If so, this period affords evidence in support of the views of Adam Smith, and against Mr. Ricardo's theory

* 'Hansard,' vol. vii. p. 968.

† 'History of Prices,' vol. ii. p. 89.

160 £1 AND £2 NOTES ALLOWED FOR TEN YEARS.

that prices depend upon the whole mass of bullion and notes in the country.

Mr. Western's motion was rejected by a large majority ; but in the same session, the time at which the issue of one and two-pound notes was to cease was deferred for ten years, with the view of affording relief to the landed interest by an extension, or at least by delaying an expected contraction of the currency.

About this time the rate of interest began to fall, and the Government, in 1822, reduced the Five per Cents. to a Four per Cent. stock ; and early in 1824 the old Four per Cents. were converted into a Three-and-a-half per Cent. stock.

We now come to the great panic of 1825. From the close of 1822 prices gradually rose ; in 1824 this rise became very rapid, and great speculations were made in almost every article. In the same and the following year large foreign loans were contracted in this country, and the celebrated and unfortunate schemes for working the gold and silver mines of America by English capital were set on foot. In the beginning of 1824 the foreign exchanges began to be unfavourable, and they continued

to decline until the autumn of 1825, when they again improved. In December of that year the panic was at its height, and about 70 banks and an immense number of mercantile houses stopped payment. On this occasion the Bank of England was exposed to a double drain of bullion; first, to meet the foreign demand; and, secondly, to supply the place of the one and two-pound notes of the country banks, whose credit was quite gone. Its treasure was reduced to about 1,000,000, and it is said that it must have stopped payment, and that we should have been reduced to a state of barter, but for a box full of old one and two-pound notes, which was discovered by accident, and which satisfied a part of the demand arising from the destruction of the country paper, as confidence in the stability of the Bank of England was still unimpaired, and its notes were as readily taken throughout the country as gold. In this position of affairs, though the amount of bullion in the Bank was not much more than a million, the directors, seeing that the exchanges were favourable, were bold enough to increase their issue of notes by nearly 8,000,000. The panic was at once allayed by

162 PARTIAL REPEAL OF THE USURY LAWS.

this measure, and the increased issues did not check the influx of bullion. This is a most important fact. This large addition to the currency could not have raised prices, or the importation of the gold must have ceased. The notes, as suggested by Mr Thornton, must have been obtained by bankers and merchants merely as reserves, and thus never came into comparison with commodities ; or they supplied the place of the currency, already locked up in such reserves, merely restoring the circulating medium to its former state, thus not raising prices more than would permit the return of an ordinary amount of gold.

During this panic the injurious effect of the usury laws upon the mercantile classes became extremely evident. The risk was so great, that no one could be found to lend money at the legal rate of five per cent., and many persons were forced to sell their property at a sacrifice, to obtain the money which they could not borrow on the security of it.

The great prosperity which preceded the panic of 1825, and the commercial distress which accompanied it, like the occurrences of 1793, are constantly referred to as proving

the power of bankers to produce such catastrophes by the issue of notes ; therefore, as on the former occasion, we must notice any circumstances which may show another origin for these events. The most probable cause for them, apart from the state of the currency, appears to have been, as alleged by Mr. Tooke in the second volume of his ' History of Prices,' the reduction of the rate of interest on the Government stock. This induced many persons to invest in foreign loans ; the large gains of the early speculators in these loans tempted others, and excited a gambling spirit in the public, who then rushed into the schemes for working the silver-mines of America, and into the wildest speculation in all kinds of produce in the home market. How far the power of issuing notes may foster a spirit of this kind, though it may not have the power of creating it, is a question of great importance, to which our attention will soon be called.

The country gentlemen who supported Mr. Western's views, attributed the prosperity which preceded the panic entirely to the extension of the currency, which they considered to have resulted from the permission granted

to the country banks to continue the issue of small notes ; and they conceived that this prosperity would have been permanent but for the necessity of paying the notes in gold. We must, however, at present defer any further inquiry into their views, and turn our attention to the steps which were taken to improve the existing currency of convertible notes.

The first practical measure taken on this occasion was an attempt to give greater stability to our banking system. Public attention had been attracted to the great distress caused by the stoppage of so large a number of private banks, and although only ten of the whole number of banks which stopped payment ultimately became bankrupt, it was supposed that want of sufficient wealth, and not want of due caution and preparation, was the great element of danger in the system of private banking. To remedy this evil, the law, limiting to six the number of partners in any bank issuing notes, was repealed, except as to the district within 65 miles round London, and the issue of all notes under £5 was prohibited. The Bank of England also established branch banks in many of the large provincial towns.

The directors of the Bank of England, however, did not escape all blame; it was said that, finding the amount of their bullion very large in 1832, they had pushed their notes into circulation in every possible way; that by this means the country bankers had been enabled and induced to make large issues, and thus speculation had been encouraged. They were also blamed for having continued to increase their issues, even after the exchanges began to turn against this country.

It is, perhaps, hardly necessary to mention that the bullion kept by the Bank was, as far as the Bank is concerned, so much capital lying unproductive; that it was an expense to the Bank, while the securities, public and private—that is, the investments in which its notes and the deposits of its customers are placed—were the chief sources of its income; it was, therefore, for the interest of the Bank to keep the amount of the securities as high, and that of the bullion as low, as a due regard to safety would permit.

In 1830, the Bank experienced a drain of gold during the political excitement on the Continent, and in this country; on this occasion,

166 COMMITTEE ON THE BANK CHARTER IN 1832.

the bullion was reduced from nearly 10,000,000, to about 5,000,000 ; but no inconvenience was felt by the commercial classes. This result was attributed, by the Bank directors, to the fact that no speculative feeling existed at this time amongst the merchants, and credit was not in a state to be easily injured. The supporters of the Bank Act of 1844, however, maintain that no inconvenience was felt at this time, only because the Bank directors had, for once, contracted their issues at the proper time. Perhaps, as this drain of gold arose from political causes, the notes which were presented for payment in gold were taken, to some considerable extent, from the amount of notes in the hands of the public generally, and not, as is usual in such cases, from the reserves of the bankers.

In 1832, the period for which the Bank charter had been granted being upon the point of expiring, a committee of the House of Commons was appointed to inquire into 'the expediency of renewing the charter of the Bank of England, and into the system on which banks of issue in England and Wales

were conducted.' The Bank directors who were examined before this committee, described the mode in which they managed their business as follows :—The liabilities which they had to meet were the notes and the deposits of their customers; their assets were their securities, public and private, and the bullion. At what they called a period of full currency, by which they seem to have meant such a currency as exists when the exchanges are at par, they endeavoured to have these assets so arranged that the securities formed two-thirds, and the bullion one-third, of the whole, and they professed to keep their securities at this fixed amount, supposing that the public, when in want of bullion, would procure it in exchange for notes, thus diminishing the amount of the circulation as they diminished the stock of bullion, and regulating the amount of the circulating medium for themselves. The Bank directors stated also, that in 1827, they had rescinded the resolution which had been passed in 1819, declaring that the amount of their issues had no connexion with the foreign exchanges, and that they now contracted their

issues by the sale of a portion of their securities whenever the exchanges became so unfavourable that bullion began to leave the Bank.

Mr. Loyd, afterwards Lord Overstone, and Mr. Norman, two of the principal authors of the plan by which the Bank of England is now regulated, were examined before this committee. Lord Overstone's evidence, on this occasion, turned chiefly upon the question then agitated, of allowing another bank of issue in London, and has not much reference to the plan which he afterwards proposed. It may, however, be mentioned, that he allowed that, even in 1825, there was no want of confidence in the ultimate solvency of the Bank, and that if we had been driven to a state of barter, the inconvenience would have been very transient.

Mr. Norman enters more into the principles which he supposed to regulate prices; he states that the whole of a currency consisting of gold and of paper convertible for gold, might, for 'a certain period,' and to a 'certain extent,' be depreciated by an increase of the paper part of it; and, on this ground, he thought that the Bank of England might force more paper on the public than was necessary

for the circulation. He allowed that by depreciation he meant a less value as compared with commodities, but he denied that the market price of gold could be raised, except to a very slight degree, so long as the notes were convertible for gold. (The reader will here recognize Mr. Ricardo's theory.) He stated that a depreciation of the currency, while the notes were convertible, could reach a very low per centage only, yet he allowed that an increase of a million of notes on a previous circulation of 15 or 20,000,000, might produce a rise in prices to the amount of five per cent. if all other portions of the circulating medium increased in the same proportion; he did not say what he meant by the other portions of the circulating medium, though the views which he afterwards expressed show that he must have meant country bank-notes only. He did not think the increase of prices in 1825 was due wholly to the increase of paper, or that it was in proportion to the increase of paper. The same amount of currency may perform much more work in periods of excitement, because the velocity of circulation is greater. If a speculative rise in prices

takes place, large issues by the banks will keep up the prices and carry on the spirit of speculation.

The country bankers who were examined before this committee denied that they had any power over their issues. They said that they could not pay any regard to the state of the exchanges; the amount of their issues depended entirely upon the demands of their districts for circulation, varying with the state of business. Mr. Gurney and the late Baron Rothschild, when examined before the committee, agreed in this view; and Baron Rothschild further said, that the Bank of England had no power, for any length of time, over the exchanges by means of its issues.

The principles upon which the Bank directors professed to conduct their business being approved, the charter was renewed, in 1833, for ten years, with some changes in the law calculated to mitigate the inconveniences which had lately been felt. To diminish the probability of drains of gold, in support of the country banks, the notes of the Bank of England were made a legal tender by all per-

sons except the Bank itself. The usury laws were repealed as to bills not having more than three months to run. The Bank accounts were to be published monthly in the 'Gazette,' both to insure the adherence of the directors to their rule and give the public the means of knowing when to expect a contraction of the currency. And lastly, that the Bank directors might have a greater command over their issues, and thus be enabled more easily to contract the currency when the state of the exchanges required it, one-third of the debt due to the Bank by the public was to be repaid, by which its available capital would be increased by three millions and a half.

After the removal of the prohibition against the issue of notes by firms comprising more than six partners, many joint-stock banks issuing their own notes were established; and in the year 1836, their number was so greatly increased that either a bank or a branch bank was to be found in almost every town.

In 1837, there occurred another severe pressure in the money market; several joint-stock and other banks stopped payment, and some of the largest and oldest houses in the

American trade failed. The convulsion on this occasion fell with extreme severity on America, and the whole of the banks of the United States suspended cash payments. Attention was again called to the connexion between events of this kind and the state of the currency, and a discussion ensued which led to the passing of the Bank Act of 1844, the effects of which have been the subject of so much dispute.

The reader will have remarked that the theory that prices depended upon the number of Bank of England notes in circulation, had been gaining ground for some time. The fact that these notes were convertible for gold at the will of the holder, did not seem to give sufficient steadiness to the currency. It was supposed that the Bank of England possessed almost unlimited power over the trade of the country, that she could raise or lower prices, and excite or check a spirit of speculation amongst the people almost at will, and that she had abused this power for her own advantage, giving rise to speculation by forcing her notes into circulation when it suited her

purpose, and ruthlessly contracting her issues when she felt herself in danger.

Mr. Horsley Palmer in his 'Causes and Consequences of the Pressure in the Money Market,' published in 1837, denied that the Bank of England had the power to issue notes at will, or that her issues had been excessive. The efflux of bullion which had taken place while the exchanges were favourable, was caused by loans to Don Pedro, (at this time supported by us in his contest for the throne of Portugal,) and other foreign demands for gold, and he complained that when the Bank contracted her issues, country notes were issued as fast as the Bank notes were withdrawn.

It was in his reply to Mr. Palmer's pamphlet, that Lord Overstone first enounced his celebrated theory on which the Bank Act of 1844 is based. He entirely exonerated the Bank directors from blame; they were in fact obliged to follow the course which they had adopted. A banker having the power to issue notes, could not in times of difficulty, avoid making use of it for the relief of his customers. Trade appears to revolve in a cycle; first a state of

quiescence, next of improvement, growing confidence, prosperity, excitement, overtrading, convulsion, pressure, stagnation, distress, ending again in quiescence. The banker cannot contract his accommodation to his customers, while the whole trading and mercantile world are acting under one common impulse of expansion. If, under these circumstances, the banker, in addition to what may be called his ordinary and legitimate resources, is also entrusted with the power of issuing notes *ad libitum*, is it not inevitable that he should abuse this power?

‘The one great duty,’ says Lord Overstone, ‘which the manager of the currency has to perform, is that of making the amount of the paper circulation vary precisely as the amount of the circulation would have varied had it been exclusively metallic.’ This, the reader must bear in mind, is the ‘currency principle’ which has been so much and so fiercely discussed, and which is the foundation of the Bank Act of 1844.

Lord Overstone advised the gradual strengthening of the central issuer and the separation

of the banking functions from the management of the currency.

We must note that it was supposed by Lord Overstone and his friends that under a purely metallic currency, if from any cause the currency became too large, as regarded the currencies of neighbouring States, and prices in this country became too high as compared with those of our neighbours, a portion of our metallic currency would at once go abroad, and prices at home would fall again. But that in the case of a mixed currency of gold and notes, even if the notes were convertible for gold, the currency, under the above mentioned circumstances, would not necessarily be contracted by the exportation of a part of the gold, for the place of the exported gold might be supplied by a fresh issue of convertible notes, keeping up prices to their former level.

The reader will see that when a part of the purely metallic currency had been exported, the remainder would be more valuable than before, and prices at home would fall. But in the above-mentioned case of the mixed currency, the total amount of it being kept the

176 THE CONVERTIBILITY OF THE NOTES.

same as before by the issue of the new notes, no portion of it could be more valuable than before; a note in the mixed currency would not be of the same value as the corresponding amount in the purely metallic one, even though convertible for gold, because the gold being part of the mixed currency whose amount remained unchanged, itself remained of the same value as before, instead of being enhanced like the coin in the purely metallic currency. Unless the mixed currency is reduced, the note is not really convertible for gold, that is, for the scarce and dear gold of a purely metallic currency, and it is only in this sense that Lord Overstone allows that a note has the full character of convertibility, and that the holder of it is placed in the same position as the holder of an equal amount of a purely metallic currency, and his object is to compel the bank to contract its issues of convertible notes so as to give them this value.

The reader will perhaps think Lord Overstone's theory of the variations of a purely metallic currency intelligible enough, though it will probably at once strike him, that changes in prices caused by such variations, are

not likely to be so large or so sudden as those we meet with in practice at times of commercial difficulty.

When, however, we come to the management of the mixed currency, as advised by Lord Overstone, we meet with many disputed points. It is evidently necessary that prices should depend upon bank-notes alone. If prices could be kept up by bills of exchange or cheques on bankers, it would obviously be of little use to regulate the amount of Bank of England notes. Accordingly, a great dispute arose as to this point, discussions upon which fill a large part of the bulky volumes issued by the committee of the House of Commons, appointed in 1840, to inquire into the effects produced on the circulation by the various banking establishments, issuing notes payable on demand.

Another point is, that in times of distrust, when the Bank of England has advanced many notes to the merchants, the notes do not seem to act upon prices as money; they are returned to the Bank by the holders when the pressure is over, and are not capable at the time of re-issue. This point, however, Lord Overstone says, would not arise were the Bank obliged to

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regulate the currency in accordance with his views, for in that case, these large amounts of notes would not be found in the merchants' hands, as the Bank would have been restrained from issuing them. We shall see, however, that there are many cases in which both Bank of England notes and coin remain in the coffers of the Bank, quite incapable of being issued to the people ; and to support his theory, Lord Overstone has to maintain, that these notes and coin, though unemployed, affect prices. Indeed he maintains that they are the most powerful part of the currency, as to its effects on prices, being known to be at any time applicable for making purchases.

We must carefully note that the meaning of the word convertibility, as used by Lord Overstone, differs from the general acceptation of that term. Lord Overstone allows that, without his proposed plan of regulating the currency, there was no doubt of the ultimate convertibility of the note, though upon this point great confusion existed in the public mind, a confusion sometimes perhaps increased by the manner in which Lord Overstone uses the word convertibility, or, at least, in which

he was understood by his opponents to use it.

As to this point, the public were certainly not prepared to accept the views of Lord Overstone and his school. He complained of being misunderstood, and in his evidence before a committee of the House of Commons, he says, that when his friend Mr. Norman stated the theory that an excessive issue of paper money, although not depreciating the paper money with reference to the coin into which it was convertible, depreciated the whole money of the country in comparison with that of others, there was great surprise in the committee, who seemed perfectly astounded, as if a ghost had appeared ; and he considered it astonishing that any person should take a prominent part in the discussions of the committee, without being perfectly familiar with that principle, which he maintained was most simple and distinct, and recognized by every writer of any authority upon the subject. We must note here, that the manner in which Lord Overstone's views were received by so many men of great practical experience, is at least evidence that the changes in price which he attributes to the state of the

currency were not very obvious, and indeed we should suppose were very small ; and allowing the truth of his theory, the question practically hangs upon this point: are the changes in price under Lord Overstone's theory identical with all, or any of the marked changes in prices which occur during times of commercial excitement ?

The views of Lord Overstone and his friends were adopted by Sir Robert Peel, and upon the return of that statesman to power in 1844, he procured the passing of the celebrated Bank Act of 1844, which embodies those views.

In the opening of his address to the House on the introduction of this measure, Sir Robert Peel spoke in the strongest terms of its importance, he says, 'there is no contract, public or private, no engagement, national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of society, the wages of labour, pecuniary transactions of the highest amount and the lowest, the payment of the national debt, the provision

for the national expenditure, and the command which the coin of the smallest denomination has over the necessaries of life, are affected by it.'

By the Act of 1844, the business of the Bank is divided into two departments—upon the 31st of August 1844, there were to be transferred to the issue department first, £14,000,000, of securities, including the Government debt; and secondly, all the bullion and coin, except a small sum employed in banking, and this department was thereupon to deliver to the banking department such an amount of notes as, together with the notes then in circulation, should be equal to the amount of the securities and bullion so transferred to it. The issue department was not allowed to issue any notes for the future, except in exchange for bullion or for other Bank of England notes, but it was compelled to give notes in exchange for bullion, and the Bank was authorized to issue such notes as it received from the issue department without restraint, as any other person obtaining them for gold might have done. Weekly accounts were to be published by the Bank.

On the 7th of September 1844, when the first weekly account appeared, the bullion exceeded £14,000,000. The number of notes in circulation in the hands of the public was about £20,000,000 ; about £8,000,000, of notes were therefore handed over to the banking department, and with these the Bank was to deal as any other banker. They formed the fund out of which alone the Bank has the power to increase its discounts.

Even now, there seems no certainty that the amount of notes actually in the hands of the people, should vary with the amount of the bullion. These 8,000,000, of notes did not immediately go into the hands of the public, they in fact remained for a year and a half on this occasion in the till of the Bank unemployed. We have seen indeed, that Lord Overstone and his school maintain, that they affect prices in this state just as much as if with the public ; but can we conceive that if this were the case, they would have remained so long apparently idle ?

The amount of notes to be issued without reference to the stock of bullion, was not fixed

at 14,000,000, because that happened to be about the capital of the Bank, but because experience had shown, that the number of notes in the hands of the public had never in any previous panic been reduced below that sum; it was therefore not necessary to provide a fund of gold to meet these notes, as they would never require to be paid in gold coin. Bank of England notes may now therefore be said, to be for all purposes as much represented by gold, as if there were in the Bank, bullion to the whole amount of the notes issued.

By this Act no new banks were to issue notes, and any bank already existing which ceased to issue them, was not to be allowed again to resume that privilege; all private banks too, were limited under heavy penalties, to the average amount of their issues for the 12 weeks preceding the 17th day of April 1844, and the Bank of England was allowed to compound with issuing banks for the transfer to her of that privilege; the object of all these provisions being evidently, the gradual extinction of the private issuers. By this Act it was also provided, that the Bank of England might issue

additional notes upon securities, to the extent of two-thirds of the lapsed issues of the country bankers, on being authorized to do so by an order in council.

In 1845, an Act was passed regulating the issues of the Scotch banks, the object being to carry out with respect to them the principles of the Act of 1844; the people of Scotland, however, effectually resisted the abolition of their one pound notes, and there were other anomalies in the position in which these banks were placed, but we need not inquire into this subject in detail, as to do so would lead us too far from our principal object.

CHAPTER VI.

MR. TOOKE ON THE BANK ACT.

Mr. Tooke on the Bank Act—The panic of 1847—First suspension of the Bank Act—Parliamentary committees on the panic—Lord Overstone's views in 1847—Evidence before the committees—Views of Lord Overstone and Mr. Tooke compared—Views of the Expansionists and their opponents at this time—Mr. Attwood—Mr. Babbage—Mr. Powlett Scrope—Mr. J. S. Mill—Mr. Macculloch—Mr. Bailey—The gold mines of California—Renewal of the Bank Charter—Evidence of the Governor of the Bank—Mr. Chapman suggests a tax on the notes issued beyond the prescribed limits.

THE Bank Act of 1844, was of course received with a storm of indignation by that large class who want facilities for the borrowing of money, and who hope to make their fortunes in times when speculation is prevalent. We need not, however, examine their theories upon these points, they are in the main, the same as those by which we find all depreciations of the currency defended. But we will now take a glance at the views of more scientific opponents of the Act, at whose head we find Mr.

Tooke, Mr. Fullarton, and Mr. Wilson, the editor of the 'Economist.'

Mr. Tooke said that the promoters of the Act had misunderstood the working of a purely metallic currency; he denied that every exportation of bullion would be attended with a contraction of the amount of the currency, and a fall in prices. The bullion exported is not necessarily part of the circulating coin. There is always a mass of bullion in a country like England, which forms no part of the circulation, but is kept for the purpose of settling international balances. As the coinage is free, a part of this bullion may very likely exist under the form of sovereigns, but these sovereigns form no part of the coin used for internal circulation. This we see is Adam Smith's view of the subject.

Mr. Tooke denies that prices depend upon the amount of bank-notes or bills of exchange. Prices depend upon the terms on which articles go into consumption, and these terms depend upon the quantity of money constituting the revenue, valued in gold, which is set apart by the people for current expenditure. The amount of the circulation must depend upon

the quantity of it, required to circulate the commodities of the country, at the prices determined by this law, and neither the Bank of England, nor any other bank, has the power of altering this amount at will.

Though Mr. Tooke denied that the prices of commodities could be regulated by the direct operation of expansions and contractions of the amount of bank-notes, he did not suppose with Lord Overstone, that we should be left without any means of restoring the exchanges, if it were thought necessary to take any steps for that purpose. The exchanges would be very powerfully affected by the Bank raising the rate of interest, which would lower the price of securities, though not necessarily that of commodities, and would attract capital from foreign countries for investment here. But the fluctuations in the rate of interest under this plan, would be much greater than formerly. The Bank should be compelled to keep a larger stock of bullion, and drains should then be allowed to take their course. Mr. Tooke considered that at this time a reserve of 10,000,000, would be a sufficient mass of treasure to sustain a drain without interference.

With reference to the working of the new Act, Mr. Tooke observed, that a demand for gold would most likely take place through the deposits, and not by withdrawing a part of the notes in circulation with the public; it would affect the unemployed notes before it disturbed those actually in use. The result would be, that the directors of the Bank, uncertain of the extent of the drain, would be obliged instantly to contract their accommodation to the public, (this the reader will see was Lord Overstone's object.) Before two or three millions could be extracted from the amount of these notes, the pressure upon the reserves of the London bankers would be very great. These bankers would, to the utmost practical extent, call in their loans and resolutely refuse further accommodation. No one can doubt the pressure which would be inflicted upon the public, and perhaps in vain; probably the Bank might not recruit its reserves in time, and it might happen that with an amount of 6,000,000, of bullion in the issue department, the banking department would be obliged to stop payment. Mr. Tooke predicted that in such a case the Government would be called upon to interfere,

and the only interference which could meet the emergency, would be to authorize a temporary transfer of coin from the issuing to the banking department, in other words, to suspend the Act.

Subsequently to the passing of the Bank Act of 1844, the Bank directors abandoned the custom to which they had formerly adhered, of maintaining for long periods a uniform rate of discount, and lowered and raised their terms in such a manner as they supposed would give them a share of the discount business of the country. In 1845, when their reserve of notes was very large, their rate of discount was as low as two and a half per cent. It is hardly necessary to remind the reader that the railway mania reached its height about this time; a vast sum had been spent on works actually constructed, and a still larger sum was required for works in progress or undertaken, and it seems to be generally admitted that the high wages paid to the workmen, and other kinds of railway expenditure, had caused an unusual consumption, and consequently an unusual importation of foreign articles. In this state of affairs the potato blight made its

appearance, and the harvest being at the same time deficient, large importations of food became necessary. The exchanges with America and the Continent fell rapidly, and a drain of bullion took place. When the drain commenced, the stock of bullion in the Bank was about 16,000,000, and the reserve of notes about 9,500,000, consequently the amount of notes circulating with the public was about 21,000,000. By April 1847, the reserve of notes was reduced to 3,000,000, 2,500,000, of the reduction taking place between the 27th of March and the 17th of April.

At first the directors of the Bank of England took no steps to check the drain, beyond a very slight increase in the rate at which they discounted bills. The rate of interest was not raised to four per cent. even until January, but in the end of April, it was suddenly raised to five per cent. for the best bills having only a few days to run, the amount of bills admitted for discount being at the same time limited, and renewal of outstanding bills refused. No measure, says Mr. Tooke, of so severe a character had been resorted to by the Bank since December 1795. These proceedings on

the part of the Bank stopped the drain of bullion, and a large sum already on board the American packets was relanded. From this time forward the demand for bullion was very slight, and the exchanges became favourable to this country. Nevertheless the commercial distress continued, the demands upon the Bank for discount were very great, and about October many failures occurred. In their efforts to keep up their reserve, the Bank directors raised the rate of discount successively to five and a half, six, seven, eight, and even nine per cent., the exchanges being all this time favourable to this country. But notwithstanding these steps the amount of the reserve of notes continued to decrease, until on the 23rd of October, it was not more than 2,000,000, a panic ensued, perhaps almost equal to that of 1825. The principal London bankers, with the exception of Lord Overstone, went in a body to Government to represent the evils which must arise from the continuance of the restriction in the issue of notes. The Government now interfered, suspended the Act of 1844, and authorized the Bank to issue notes on securities beyond the limits prescribed by the Act, but

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at a minimum interest of eight per cent. The panic was instantly allayed, and it was not found necessary to use the permission thus given to issue notes; during the pressure the amount of the notes in the hands of the public varied but little.

It was impossible not to allow that the events which occurred on this occasion very closely followed the line pointed out by Mr. Tooke and his friends, and so complete a fulfilment of their predictions, could not but incline the public to attach great importance to their views, as affording a practical, if not a theoretical, explanation of the working of a currency. Inquiries took place before committees of both Houses of Parliament as to the cause of the distress on this occasion, and the extent to which it had been increased or diminished by the Act of 1844.

Lord Overstone, in his examination before these committees, maintained that the Act of 1844, had mitigated the crisis of 1847, because if that Act had not been passed, in addition to the difficulties which existed, there would have been such a reduction of the bullion as to occasion serious apprehensions for the convertibility

of the notes, and thus cause an internal demand for gold. He blames the Bank directors for increasing their discounts in the early part of the drain which, together with the failures which occurred during the latter part of the year, prevented a gradual contraction of the notes in the hands of the public; under any circumstances the Act had shown itself efficient for its intended purpose, which was the effectual protection of the convertibility of the bank-note. The objection to the old system was, that it did not provide a necessity for making an effort to adjust the exchanges until the bullion was reduced so low, that no means existed for meeting an internal demand for gold. Two things will strike the reader here, (1) as after the passing of the Act, the Bank could only issue notes for gold received, any increase of the Bank discounts must have been out of its banking reserves and has nothing to do with the currency, and (2) Lord Overstone now appears to speak of the convertibility of the note, in the ordinary acceptance of the term, without reference to the peculiar and subtle theory of making the notes exactly equal to the bullion from time to time, as the bullion

would vary in value were the currency wholly metallic ; and in consequence Lord Overstone was generally considered to have given up this theory, and as an after thought to have claimed for the Act the preservation of the convertibility of the note in the ordinary acceptance of that term, a matter of but small comparative import, as nobody ever doubted the convertibility of our bank-notes in that sense. We shall see, however, on the occasion of another suspension of the Act of 1844, that Lord Overstone had not forgotten the more subtle theory of the convertibility of the notes.

The greater part of the witnesses examined before these committees, did not find fault with the Act for having caused a pressure for the purpose of stopping a drain of bullion, they agreed that if our notes are to be convertible for gold, means must be taken to preserve a fund of gold, and sacrifices must be made ; but they said that the Act, by fixing a definite limit to the extent to which the Bank may assist the public, tends to create panics. When the public mind is in an excited state, and the people see that the Bank has nearly reached the limit of her power to assist them

with her credit, they are seized with a panic : each man is eager to get in time the means of meeting possible demands, and when he has attained these means, he hoards them. The consequence is, so great a scarcity of the ordinary instruments of exchange that business comes to a dead lock. There is a run upon the Bank for notes, not because they are really wanted, but because the people see that there may be a time when it will be impossible to obtain them. This transaction seems to be quite independent of all questions of expansion or contraction of the currency, and the point appears to be, is it better to fix a limit which shall certainly preserve gold enough to meet any internal drain at the risk of creating a panic, or perhaps we may say of creating a panic at an earlier date, or to trust to discretion on the part of our state bankers ?

The Bank directors seemed to have approved of the Act of 1844 ; it had relieved them of a considerable part of the responsibility which they had previously had to bear in the management of the circulation. It was, however, generally agreed that they must still keep the state of the circulation in view, and that they

were not to carry on business in the same manner as other bankers, and they were blamed for lowering their rate of discount in the attempt to get their notes into circulation in accordance with Lord Overstone's theory, that the circulation should be increased as bullion came into the country.

In the course of the next year, the rate of interest fell again to its usual amount.

The committee of the House of Lords reported, that the restrictions of the Act had materially aggravated the pressure, and had indeed produced the panic which had occurred in October; that it appeared probable that cases would occur in the future in which it would be necessary to suspend the Act; that it would be inconsistent with the fixity and order which ought to be the object of all laws to secure, if the Crown and its advisers were frequently to set aside the power of a distinct statute. They reported, therefore, in favour of an amendment of the Act by the introduction of a discretionary relaxing power, to be exercised only during the existence of a favourable state of the foreign exchanges.

The committee of the House of Commons,

however, took a different view, and decided, though by a small majority only, in favour of the Act as it then existed.

The subject was introduced by Mr. Herries in the House in 1848, but by that time commercial affairs had become prosperous again, and as usual it excited but little interest under the changed circumstances.

Mr. Hubbard intimated, that in 1847, we had a balance of foreign payments to make to the amount of 20,000,000, and 6,000,000, only of this large sum were discharged by the payment of bullion, the rest being met by purchases, on behalf of foreigners, of our securities, which had fallen in value in consequence of the high rate of interest in the country.

We will now compare a little more closely the views of these rival schools. One of the first points that strike us is, do prices, so far as they are affected by the currency, depend upon the amount of the coin in the hands of the public, by which their retail transactions are carried on, or upon the number of those larger instruments of exchange, by which wholesale dealings are effected? We have Adam Smith's authority that prices cannot

exceed those fixed by the amount of coin in the retail trade, and there seems to be no case on record in which a drain has touched the money in the hands of the mass of the people. If it is the money in the hands of the mass of the people which, upon currency principles, determines prices, then Mr. Tooke and his friends escape a difficulty which is sometimes urged against them, namely, that the notes, and even coin which they say are used only for the purpose of foreign payments and which do not affect prices, can be so inert when the amount of them is known and their owners are eager to get them into circulation, when in fact, according to Lord Overstone and his school, they ought to be most effective in ruling prices.

Mr. Tooke has indeed yet another defence upon this point. The length of time which elapsed before the rich mines of Potosi, as we have seen, and in our own time, before the gold fields of California and Australia affected prices, seem to show that the amount of coin in the hands of the mass of the people is very slowly affected. Even on the supposition that the notes and coin in the reserves of bankers, ought to affect prices as they are known by the

public to be in existence, and to be available for making purchases, time is wanting to produce any effect. Before prices can be affected, circumstances change, and the reserve notes are again required for the purpose of an enlarged business and come into circulation without affecting prices.

Lord Overstone's theory of the working of a metallic currency is no doubt true, time enough being granted, ultimately the precious metals must be distributed throughout the world through the medium of prices; the great difficulty is, that the fluctuations of price which we witness, are too large and too sudden to be attributable to causes of this nature.

Lord Overstone claims for his theory the great fall in the price of securities which occurs in cases of commercial difficulty, although there may have been no corresponding change in the prices of commodities, and as securities are bought with notes and not with coin, if it can be shown that, according to his theory, the number of notes in circulation is diminished at those times, the price of securities estimated in this currency must fall, though there may be no change in the price of those articles which

are commonly bought for coin. But can we call this a currency result, when but a small part of the currency is acted upon? Is it not much more probable, that the securities fall in value from a pressure of sales on the part of those who require money to meet their engagements, their credit being in danger.

Upon the whole, may we not feel justified in coming to the conclusion, that we may reject changes in the state of international relationships of currencies as causing changes of price, except as to those gradual changes which slowly and almost imperceptibly arrange the distribution of the precious metals throughout the world; and that we must attribute the causes of the great fluctuations of price which occur in times of commercial difficulty, solely to the more rapid influence of credit and speculation?

We will now retrace our steps, and examine the views of those who object altogether to any limitation of the power of issuing notes. We need not regret the time which must be taken up in considering the arguments for and against these views, as the expansionists have received a great increase of support from the

prosperity supposed to have been caused by the introduction of the gold of California and Australia; and expansions of the currency are still looked upon by powerful classes as the panacea for all industrial trouble.

Mr. Attwood, when examined before the committee of the Bank Charter in 1832, maintained that an increase of the currency would call every labourer in the kingdom into employment, would give him full wages, and enable him to consume annually masses of all other commodities equivalent to the masses which his own labour had produced, and Mr. Attwood proposed to increase the currency until this result was obtained. When pressed, however, to explain in what manner an augmentation of the circulating medium increased the power of production, his arguments were so confused that it is difficult to collect their meaning. They appear to amount merely to a statement, that there was not money enough to circulate commodities at the high prices which taxation and fixed burthens of various kinds rendered necessary to repay the producer. Mr. Attwood's expectation of

benefit from the increase of the currency, seemed to resolve itself into a relief from fixed burthens.

Very shortly after this expression of his opinions by Mr. Attwood, Mr. Babbage published his 'Economy of Machinery and Manufactures.' Far from sharing Mr. Attwood's views, he insists strongly upon the necessity of impressing upon all classes of the community, the importance of preventing as far as possible any change in the value of the currency. In order to illustrate the effect upon the working classes of a fall in the value of money, he supposes that a widow and two workmen are possessed of £100 a-piece; that the widow invests her £100 in an annuity; that one of the workmen places his money in a savings bank, intending to provide himself with materials and subsistence while making a machine by which he is to gain his future livelihood; and that the other workman buys a similar machine at once, borrowing £100 to assist him in his purchase. Mr. Babbage then supposes money to lose half its value; prices soon adjust themselves to the new circumstances, and the annuity of the widow, though nominally of

the same value, will purchase only half the quantity of the necessaries of life which it did before. The workman who has placed his money in the savings bank, having perhaps purchased £10 worth of materials and expended £10 in labour applied to them, now finds himself, by this alteration of the currency, possessed nominally of £80, but in reality of a sum which will purchase only half the labour and materials required to finish his machine, and he can neither complete it from want of capital, nor dispose of what he has already done in its unfinished state, for the price which it has cost him. In the mean time, the other workman, who has incurred a debt of £100 to complete the purchase of his machine, finds the payments he receives for work done by it have, like all other prices, doubled in consequence of the depreciation of the currency. Thus, without any fault or imprudence, the widow is reduced almost to starve, one workman is obliged to renounce for several years his hope of becoming a master, and another, without any superior industry or skill, but in fact from having made a bargain rather imprudent with reference to his circumstances, finds himself unexpectedly

relieved from half his debt, and the possessor of a valuable source of profit. This, Mr. Babbage says, is an extreme case ; but evils of this nature to a greater or less extent, attend every change in the value of the currency.

Mr. Poulett Scrope, in his 'Examination of the Bank Charter Question,' says, changes in the common standard of value must be unjust, inasmuch as they disturb the intention of all monetary contracts, giving them a different meaning from that contemplated by the parties at the time of the engagement. Money is employed in contracts, merely as the expression of value in ordinary use, and neither party contemplates a change in the value of the sums specified. It is not credible that the parties to any money contract do contemplate, or in general, are even aware of the possibility of any change occurring in the value of money, during the time of their bargain.

Mr. John Stuart Mill says, the whole idea is a delusion ; that the stimulus supposed by Mr. Attwood to be given to labour by an increase of the currency, must have been the expectation of getting more real wealth in exchange for the produce of labour. This

expectation must have been disappointed, because all prices being supposed to rise equally, no one was better paid for his goods than before. At the period which Mr. Attwood mistook for times of prosperity, but which were in reality times of speculation, the speculators did not think they were growing rich because the high prices would last, but because they would not last, and because they expected to realize before the crash came.

As to Mr. Hume's view of an increase of money in stimulating industry, Mr. Mill says, if the first holders of the new money were to gain more than usual, there must be persons who would gain less, the loser would be the seller of those commodities which are slowest to rise in price, who parts with his goods at the old price to purchasers who have already benefited by the new ; and if the industry of those persons who have already benefited by the high prices be stimulated, it would seem that the industry of the losers would be impaired for the same reason. Mr. Mill says, it is only by diminishing their fixed burthens that a depreciation of the currency can benefit the industrious classes, but this benefit can

be obtained only at the expense of the rest of the community.

There are, however, some well-known economists who take a more favourable view of the effect of a depreciation of the currency. Mr. Macculloch maintains, that a depreciation of the currency does promote industry ; it diminishes the burthens of the industrious classes, the duties upon their goods, their toll dues, the rents of their shops and warehouses, and the interest of the capital which they have borrowed ; at the same time that they obtain an increased price for what they sell, their condition is improved at the expense of their creditors, at that of their landlords, and of professional persons and the like. The loss of these persons would be great, but what they lost would be gained by the industrious classes, and it is the prosperity of the industrious classes that is supposed to be identical with that of the public. The reader may perhaps ask, Why so ?—why should the power to make a fortune be cherished at the expense of the fortune when made ? We must note here that it is not shown that production is increased by depreciation.

But Mr. Bailey, in his 'Money, and its Vicissitudes in Value,' maintains, that an increase of the currency does increase production by the mental stimulus which it applies. He says, it is allowed that the opening of a new market will stimulate industry and increase production. Now, on this occasion, no new capital is immediately created by the new market, (we must remember here that there is a fresh field for exchange of commodities, and that exchange creates wealth,) therefore the increased production must arise from a more efficient employment of the existing capital and labour of the country, which are not always on the full stretch, but may be more productively employed at one time than another. A mental stimulus, Mr. Bailey says, only being thus requisite to increase production, that stimulus may be given by a mere increase of money although prices may ultimately rise, and thus the purchasers may ultimately have no greater power of demand than before, yet there may have been a great encouragement to industry in the process, which may give rise to permanent improvement, and to many ingenious contrivances for facilitating labour.

We may here note that contrivances for facilitating labour are seldom invented in times of prosperity.

We shall very soon have to recur to this question when we come to consider the effect upon our currency of the gold of California and Australia. At present, we will merely note the great importance of the question, and how necessary it is to come to a correct conclusion upon it. Were it once proved that a depreciation of a currency was a real, if not permanent, advantage to the working classes, a severe blow would be struck at the foundation of society as it now exists.

We now come to events of the very greatest importance in the history of the currency. The existence of a great gold field in California seems to have been long suspected. Dr. Jamieson, in his 'Mineralogy,' published in 1816, states, that on the coast of California there is a plain fourteen leagues in extent, in which lumps of gold are dispersed in the soil. It would seem that gold must have been found in former times in considerable quantities in that country, and it is a singular circumstance that such a discovery should not have been prosecuted.

In 1848, as is well known, gold was discovered in large quantities in the river Sacramento. Attention was shortly afterwards called to the similarity between the geological formation of that district, and of large tracts of land in Australia, and in 1850, rich deposits of gold were found near Bathurst. From that time until the end of the year 1856, £174,000,000, sterling of gold were produced; the annual production gradually increased, and in the year 1856, reached the amount of £29,500,000.*

We shall meet with many points in the history of the currency on which these new discoveries require our attention. At present we will only note, that up to this time 20,000,000, of sovereigns had been added to our currency; yet the rise in prices, to say the least, had been so little marked, that its existence was doubted by many of those who took part in the discussion on the currency which we have just considered.

In a few years after the discovery of the new gold fields, the bullion in the coffers of the Bank of England reached the large amount of £22,000,000. Then came the Crimean war;

* Tooke's 'History of Prices,' vol. vi. p. 146.

the amount of bullion began to fall, and notwithstanding the great importations of it which continually took place, the amount was less on the average than before the discovery of the gold fields.* The rate of interest had been very high for a long time, there had been several periods of considerable pressure, and in October 1856, the reserve of the Bank of England was reduced to the sum of about £2,500,000, an amount not very much higher than that which it possessed when the Act of 1844 was suspended.

About this time, the directors of the Bank of England made application, in accordance with the Act of 1844, for permission to issue notes to the extent of two-thirds of the amount of the notes of those private bankers who had failed, or had ceased to issue notes, and the request was granted.

Under these circumstances, we approach the time when the Bank Charter was about to expire, and the provisions of the Act of 1844, to be either modified or confirmed by the Legislature. Many new publications appeared upon the subject, and it was again submitted to a

* 'Bank Act Report,' p. 8.

Parliamentary inquiry ; we will not weary the reader by leading him through the mass of discussion upon this subject—very little change of opinion seemed to have taken place.

In the evidence of the Governor of the Bank of England on this occasion, he allows, that while it is necessary for the preservation of the convertibility of the notes that a stock of gold should be kept, credit must be checked, for that is the only means by which the exported gold can be recovered. The trade of the country must bear the evil, and that section of the trading community which in general uses the greatest amount of credit, must suffer the greatest loss. He, however, considers that it is for the benefit of the trading world, that the gold should be retained, because they would suffer still more if the stock of it were allowed to get too low.

The evidence of Mr. Chapman, at this time the leading partner in the great discount house of Overend and Gurney, contains some curious statements. He proposed to leave the amount of the issues of the Bank indefinite, but to fix a rate of interest in proportion to the amount of bullion for the time being in the Bank, a rise

of so much per cent. for every efflux of bullion of a certain amount. We shall find, that the German Government, in establishing their National Bank, have adopted a plan very similar to that proposed here by Mr. Chapman. When asked what course would have been pursued had the Act of 1844 not been suspended, Mr. Chapman said, he believed there would have been an agreement to make payments in first class bills. He says, that if the question were, Should we maintain specie payments, or the industry of the country? he should drop the former. That, if by any possibility we did not maintain specie payments, it would be an affair with the foreigner, and would be very soon put right. When asked, Would not the return to specie payments be a very terrible affair? he replied, Not at all ; it would not be the want of property which made us give up specie payments. The foreigner would trust us just as well, his note would be depreciated for a time, and the exchanges would go down for a time, but only for a time, nor would the enormity of the transactions, if a suspension of specie payments occurred, add to the difficulty, as suggested by a member of the committee ;

for if the rate of interest were raised, as proposed by the witness, in proportion to the efflux of bullion, transactions would have become very limited. These observations are interesting, as pointing out what, in the opinion of an eminent practical financier, would be the consequence of a temporary suspension of specie payments.

It appeared in the evidence before the committee, that the application on the part of the Bank of England, to issue notes in lieu of those no longer issued by the country banks, which we have already noticed, did not originate with the Bank directors, but was made by them *pro formâ*, at the request of the Government, who were in want of bullion for a foreign remittance ; and the effect of the issue of the notes by the Bank on this occasion, was simply the exportation of an amount of bullion equal to that of the notes issued.

CHAPTER VII.

THE GOLD OF CALIFORNIA AND AUSTRALIA.

The gold of California and Australia—Slight effect on prices in nine years—Mr. Newmarsh on the productive power of the new gold—What is an adequate currency?—Professor Cairns and Mr. Newmarsh—Professor Cairns on the new gold—The new gold and the working classes—The working classes and expansion of the currency—Historical evidence upon this point—Silver begins to leave the currency of France—M. Chevalier and the fall in the value of gold—Proposed adoption of a silver standard—The crisis of 1857—Second suspension of the Bank Act—Lord Overstone on the suspension—On the rise of prices, and the state of the currency—On its effect upon interest and prices—Exchange between the Banks of France and England—The Green-backs in the United States—Mr. J. S. Mill on public opinion in America—The crisis of 1866, and third suspension of the Bank Act—Distrust of our foreign correspondents—Prompt action of the Bank directors—The Act of 1844 supposed to ensure a large reserve—Suggestions for avoiding illegal suspensions of the Act of 1844—Plan of the German Government for providing extra issues—Power of the Bank of England over the rate of interest—The gold point and exchange.

AND now nine years had elapsed since the discovery of the rich gold fields of California and Australia, and we should expect to meet

with some proof of their influence upon our currency.

As we have seen, according to Mr. Tooke, 20,000,000, of sovereigns had by this time been added to our coin, yet it was doubtful whether there had been any general rise in the price of commodities, and the average amount of gold in the Bank of England, was less than before the discovery of the new gold fields.

We may here again remark, that this state of affairs appears to afford strong evidence against the views of Mr. Ricardo and Lord Overstone, that a great rise in prices could be caused by the addition of two or three millions to our currency, apart from its influence on credit. It is true, that the £20,000,000, had been added to our currency by degrees, but in some years the addition must have been several millions in each year, quite as large an addition to the currency as those which Mr. Ricardo considered so important.

It is always, as we have seen, very difficult to ascertain whether the general prices of commodities have risen or not. Mr. Tooke, or rather perhaps we should say, Mr. Newmarsh, who edited the last two volumes of Mr. Tooke's

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great work on prices, believed that prices had not risen, and he attributed that result to the great increase which had taken place in the production of commodities by the introduction of free trade ; by the construction of railways ; and, above all, by the directly productive powers of the new gold ; and thus occasion was given for the employment of a larger currency to circulate the increased amount of commodities, without any change in general prices.

It is extremely probable that at this time, in consequence of the introduction of free trade, and of the construction of railways, there was a great increase in commodities, and consequently an enlargement of the field for the use of the currency, and that this had some influence in preventing the expected rise of prices, notwithstanding the great increase which had taken place in our banking facilities, which must have economised our currency. We must, however, hesitate to accept the theory that the new gold was directly productive of wealth.

Mr. Newmarsh argues that the new gold possesses in itself a power of production, because it is fixed capital, and any increase of

capital must give rise to increased production; and he illustrates this view by comparing an inadequate currency to a narrow and unsound road, and an increase of that currency to the conversion of that road into a railway. Now, what is meant by the term inadequate as applied to a currency? If the nature of the commodity chosen as the medium of circulation be such, that a portion of it which would exchange for the quantity of other commodities usually required in retail transactions, be not too small to form a convenient coin, or if a proper subsidiary coinage be provided for small change, and if any country has its fair share of the whole stock of such a commodity which exists in the world, how can its currency be said to be inadequate? How can that currency be made more adequate? It would seem, that we have only to carry out Mr. Newmarsh's simile, and we shall see the error. After distant places are once connected by railways, a new net-work of them will not facilitate intercourse, will not be any real addition to the wealth of a country, but a waste of capital and an encumbrance.

We must remember, that though Adam

Smith calls money fixed capital, he is careful to point out, that it is neither a material to work upon, nor a tool to work with, nor can it sustain labourers, it must be changed for other things before it can be productive.

As to Mr. Newmarsh's views upon this point, we will see what was the opinion of the late Professor Cairns. He says, 'I am aware that there are writers who regard gold not simply as a convenient medium for the exchange of commodities, but as in itself a great source of productive energy, as the motive power of all industry and commerce, and who accordingly consider an addition to the quantity of money as an addition to the fixed capital of a country, and as equivalent in its effects upon industry to improved harbours, roads, and manufactories. According to such views the influence of the gold discoveries must be universally beneficial, not merely in relation to the countries which produce the cheap money, but in a still more eminent degree to those which retain it. But common sense, no less than economic science, will continue to ask, how the world is enriched by parting with its real wealth ; how the well-being of Europe and Asia is promoted by

parting with the materials of well being, and receiving in return, not augmented supplies of wool and tallow, corn and provisions; not those commodities which new countries are specially fitted to produce, and of which old countries are specially in need; but what?—increased supplies of the precious¹ metals, a more cumbrous medium of exchange.’

In another place, Professor Cairns seems, however, to think, that the general effect of the new gold discoveries must be beneficial to the labourers, because wages must rise before the price of the articles on which wages are spent can rise; the labourer must have more money to spend; more money must be provided for the purchase of things used by labourers before those things can rise in price. This, Professor Cairns considered the redeeming incident of the gold discoveries; and, according to this view, there would be an increased demand for coin, the lower classes making comparatively but little use of credit.

Before we accept Professor Cairns’ views on this point, we must remember that they cannot be true in their entirety, unless the articles on which the labourers’ wages are spent, are things

used by labourers alone, and this is not the case. Professor Cairns goes on to say—In almost every other aspect in which we contemplate the occurrence, (the gold discoveries) it is fraught with inconvenience, hardship, and injustice, introducing uncertainty into mercantile dealings, disturbing contracts which were designed to be fixed, stimulating the spirit of commercial speculation, already too strong, and bringing unmerited loss upon classes who have the strongest claims upon our sympathy, and whom upon social grounds it is most desirable to sustain. The reader will perhaps think that a convulsion of society such as this, could never have been of any ultimate benefit to the working classes.

Here, however, we have another economist of undoubted eminence maintaining the doctrine, that an expansion of the currency is of advantage to the working classes ; we cannot therefore suppose the point to be quite without foundation. Let us see what history tells us upon the question, and (1) Let us suppose the quantity of money to be increased in all civilized countries. We find the discovery of the rich mines of Potosi contemporary with the intro-

duction of our poor laws ; we find these same poor laws exposed to greater demands, and much abused during the expansion of our currency at the time of the war with revolutionary France. Above all, we see that the great influx of gold from California and Australia has had such a slight effect upon prices, that the working classes can have felt no peculiar or perceptible advantage from it. We must remember, that we are not to look at the condition of the labourers in those countries which produce the gold, but in those countries which Professor Cairns says retain the gold, and which should, therefore, be the most benefited by it.

A forced issue of paper is a very different thing. It at once raises prices, and the benefit to the workman should be at once apparent ; but then the question meets us—Is there any given depreciation which will ensure this benefit permanently to the working class, or must the depreciation go on from day to day ? Let us suppose the money of any country to be depreciated 10 per cent., and that a certain benefit has accrued to the workmen ; they would soon live up to this in number and expense. What

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is then to be done? Are we to have another depreciation? Clearly there must be an end to such proceedings, or all property would become insecure, and with the security for property would go that accumulation of capital, which must exist somewhere or other to sustain the working classes.

We shall search the history of the currency in vain for instances in which the working classes have been really benefited by such depreciations as these. No nation stands forward as conspicuously prosperous because of the repeated depreciations of its currency. To put the point more closely, we can find no instance of the working classes of any nation having been particularly prosperous for such a reason; we find, on the contrary, instances in which repeated depreciations of the currency have been injurious to all classes, and the fact would be still more evident, were it not, that some of the greatest depreciations of the currency have taken place in countries where there was not much capital to be affected, and most of the people were small producers. This is the case to a great extent in the United States, and still more in Russia. In this latter

country almost all the people, except the Government officials, are small producers with little or no capital. Practically, we see that such depreciations of the currency, and the dread of future measures of the same kind, have always really retarded the progress of a nation. The whole thing, no doubt, as Mr. J. S. Mill maintained, is a mere delusion.

Some events now occurred which seemed to show, that the Californian and Australian gold had really affected prices ; silver began to leave the currency of France, and gold became more plentiful in that country. It was said indeed, that a great demand for silver had arisen to pay for tea and silk imported from the East, there having been a failure in the crop of silk in Europe, and it was supposed that the currency of France had been the field from which the requisite amount of silver had been collected. It was said, that on this occasion the currency of France was so stripped of coin by the demand, that great inconvenience was felt in carrying on the internal trade of the country. This result would have been an instance of a demand for bullion attacking the coin in the hands of the people, a case

which we have seen has never occurred in any of the drains of gold which we have experienced in this country. It was, however, soon suspected that the so-called drain of bullion was in reality the consequence of a fall in the value of gold, which made it profitable to coin gold and obtain silver in exchange for the gold coin, and export it.

M. Chevalier, one of the most eminent economists of France, took this view, and pointed out, that the French currency was acting the part of a parachute in retarding the fall in the value of gold, by affording a large field for the employment of that metal in lieu of silver, and he predicted that when the silver coin of France had disappeared, the fall in the value of gold would be more rapid.

M. Chevalier anticipated great evils from the depreciation of the currency which would follow the fall in the value of gold, a feeling which was shared by Mr. Cobden, who translated M. Chevalier's work upon the subject, and by many persons in this country. The author of these pages advocated the adoption of a silver standard in this country, and in the absence of such a measure, pointed out the

advantage of introducing into all mortgages and similar securities, a clause authorizing the lender of the money to demand repayment in silver bullion. The establishment of a life assurance office also was suggested, based on an arrangement to pay in silver, life insurers being peculiarly exposed to suffer from a continuous fall in the value of money. We shall soon meet with a most unexpected change in the aspect of affairs, and shall find the depreciation in the value of silver instead of gold the subject of complaint.

It is a remarkable fact, that in the course of this substitution of one metal for the other in France, there should have been a period at which inconvenience was felt from a want of sufficient coin, and we are reminded of a similar fact, which we have seen occurred during the transition from silver to gold, and vice versa, which occurred in this country in the reign of James I.

We shall soon meet with this point again ; meanwhile, our attention is called to another commercial crisis, and another suspension of the Bank Act of 1844. During the year 1857, a considerable export of gold to the Continent

was in progress, and the Bank rate of discount was five and a half per cent., when, in the month of September, news came of the commencement of monetary difficulties in America. Early in October, the Bank of England having suffered a great diminution of its reserve, the rate of discount was raised to six per cent., and after the interval of a few days only, to seven and eight per cent. About the middle of October, Messrs. J. Menteith & Co., Macdonald & Co., and Wallace & Co., failed in Glasgow. In the following week some relief seems to have been experienced from the expectation that the suspension of cash payments which had taken place in America would check the demand for gold, and on the 14th of October the reserve of the Bank was still above £4,000,000; but shortly afterwards the money market was unfavourably affected by the embarrassments of the Borough Bank at Liverpool, and of the Western Bank at Glasgow. The week succeeding these events was one of great excitement in commercial circles; the Bank raised the rate of discount to nine per cent. on the 5th of November, and on the 10th of that month to ten per cent. This stopped the drain of gold

to the Continent and to America, but several failures occurred in London early in November, and at Sheffield, the house of Naylor, Vickers & Co., stopped payment; shortly afterwards the firm of Dennistoun & Co., of Glasgow, failed for about £2,000,000; a run took place on the Scotch and Irish Banks; and the Western Bank and the City of Glasgow Bank stopped payment. Two millions of sovereigns were taken from the Bank of England to meet this run. The great money dealing house of Sandeman & Co., and many other London houses, failed; and notwithstanding large sales of stock by the Bank, and the high rate of discount, the reserve of the Bank continued to decrease, until, on Wednesday the 11th of November, 1857, it was less than £1,000,000. Early on the morning of Thursday, the 12th, funded property to the amount of £500,000, was sold by the Scotch and country banks, with the view of drawing gold and notes from the Bank of England. Under these circumstances, Government suspended the Act of 1844, by a letter to the Bank directors, authorising them to exceed the limit fixed by that Act for their issues on securities.

The reader will note how different the scene here described is from what we should expect from the quiet outflow of a redundant currency.

This suspension of the Act was not quite so successful in checking the pressure as that of 1847. The Bank directors exceeded the legal limit of their issues by about £2,000,000, and many failures, including those of two large joint stock banks, took place after the suspension of the Act.

We should mention, that though there had been without doubt a great deal of reckless trading, all the houses which were obliged to stop payment were not really insolvent, the firms of Dennistoun & Co., Naylor, Vickers & Co., the Western Bank, and many others, paid in full.

The supporters of the Bank Act of 1844, did not make much reference on this occasion to their theory of the currency; they blamed the Government chiefly for altering the value of money by their interference.

Lord Overstone was prepared to retain the Act in force, come what might come—ruinously low prices for goods, and twenty or thirty per

cent. for money. He said, gold is the money of England; every man may bring into the country or take out of it what money he pleases; we depend upon free trade for our supply of money as well as of provisions; and he blamed the Government for interfering with this free trade in money. He asked what would be thought of a Government which, when the supply of provisions fell short, undertook to satisfy all demands at a given price, a course which, he said, was analagous to that which had been taken by the Government with respect to money by their suspension of the Act of 1844. Here we see again Lord Overstone's theory of the working of a metallic currency, contraction of its amount to such a degree as to make what remained of it scarce and valuable.

Now, the only objection that can be urged against the course assumed by Lord Overstone to be adopted by a Government with regard to provisions is, its impracticability; the State cannot prevent provisions from rising to their natural price, and any attempt to interfere with the market for them would be absurd as well as impolitic. In the same way, no doubt, the

State cannot prevent the natural distribution of the precious metals throughout the world in such manner, as to give on the average those prices which will permit a trade between the various nations of the earth, on the same terms as if it were conducted by barter. The State is powerless over prices as determined by this law, and if the fluctuations in price which occur before and during periods of commercial pressure, were due to a want of adjustment in the currencies of the different nations of the world, there would be no remedy except the re-arrangement of those currencies. But, as we have seen, the small and tardy effect produced upon prices by large additions to the currency by the discovery of the mines of Potosi, by the silver and gold thrown on the market of the world during the war with republican France, and by the discovery of the mines of California and Australia, seems to have proved that great fluctuations in prices must be almost entirely due to the agency of changes in the state of credit; such fluctuations, therefore, must apparently, at least to some extent, be within the control of the State, and as when confidence is once shaken, credit is most capricious, they

are fit objects for the exertion of that control. What is the object of the institution of a national measure of value? Evidently to facilitate the distribution of commodities; but in the same manner as they would, though with more difficulty, be distributed by barter, not to make any change in that distribution. It is, then, the duty of the Government, if it be possible, to keep the measure of value in such a state as will enable it to perform this duty efficiently.

And here we must notice a mistake into which Lord Grey, and Mr. Gladstone, and other eminent supporters of Lord Overstone's theory, seemed to have fallen on this occasion. They blamed the 'tenacity' with which minds of great intelligence adhered to the belief, that the Bank of England ought to afford relief to the mercantile interest during a pressure. They seemed to suppose, that those persons demanded an issue of paper money and a depreciation of the currency, while, in fact, they only asked that the Bank should interfere to restore credit to its ordinary state.

It is a curious instance of the influence upon men's minds, of a theory once adopted, that

on this occasion many statesmen were found to agree with Lord Overstone, that great hardships had been inflicted by the suspension of the Act—(1) upon the public, who had been prevented by that measure from buying commodities at the extremely low prices to which they would have been reduced, if the Act had not been suspended ; and (2) upon the lenders of money, who had been deprived of the twenty or thirty per cent. which they would have received, thus ignoring altogether the sufferings of the vendors of the commodities and of the borrowers of the money.

We may note, that on this occasion the distress was greater in Hamburgh, where the currency is strictly metallic, than with us.

It will not be very long before we come to another suspension of the Bank Act of 1844, and then we shall see, that probably from the events of this period, and the discussions upon them, the views of Lord Overstone and his friends, as to the action of a metallic currency, have gradually lost ground with the public, and that the notion that the Bank of England should support credit, has been more generally received.

From the commercial crisis in 1857, there is

nothing in the history of the currency which requires our attention until the year 1860, but in that year a very curious monetary transaction took place. The Bank of France exchanged with the Bank of England £2,000,000, in silver for £2,000,000, in gold, with a stipulation, that if the Bank of England sold the silver at a profit they were to hand over the profit to the Bank of France. This transaction is evidence of a fall in the value of silver, and at the same time affords an illustration of the working of the double standard. The Bank of France had at this time as much bullion as was thought necessary for its security, but this bullion consisted in great part of silver. At this time gold had fallen in value as compared with silver; it therefore suited the Bank of France to pay its obligations in gold rather than in silver, and thus its stock of gold had been nearly exhausted.

The reader will probably be surprised at this roundabout way of obtaining a supply of gold, when the obvious course would seem to be, to sell the silver bullion for gold in the market. Probably this plan was adopted from some political motive.

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On the establishment of their independence, the United States of America adopted the gold dollar and the silver dollar as equally legal tender, in the proportion of one dollar of gold to 15 dollars of silver. This proportion was changed in 1834, to one to 16, a rate which subsequent experience showed to be unduly favourable to silver, and gold became much more prevalent than silver in the currency of the United States, but as matter of legislation the two metals remained legal tender.*

In 1861, the war of the Secession broke out in America, and in a short time inconvertible notes, the well known green-backs, were issued by the Government of the Northern States. These notes were legal tender in all cases except the payment of import duties. They were at first nearly equal in value to gold, but soon became depreciated. Their value fluctuated greatly during the struggle, but at its close, when affairs became settled, the price of gold in green-backs was about 140 ; † from this point the price of gold fell gradually nearly to par, not, however, without repeated attempts by the

* 'Economist,' Sept. 29, 1877.

† 'Economist,' 1865, p. 1039.

advocates of 'soft money' to prevent that result by obtaining a fresh supply of green-backs. These attempts were, however, always defeated by the good sense of the American people. On this point, Mr. J. S. Mill observed, 'There is little danger that these immoral counsels will prevail. It has been shown by many examples in the recent history of the United States, that an agitation for something wrong and mischievous may go on for a certain length of time without visibly stirring up the good sense and honesty of the country to resist it, but that when the agitation attains a sufficient height to begin to be dangerous, a mass of opinion, which ordinarily remains quiescent, forces itself into activity, puts down the wrong thing, and peremptorily demands the right thing instead. Let us hope that this mass of wholesome opinion may always exist and prevail.'

This fall in the price of gold, valued in green-backs, or, in other words, this rise in the value of green-backs in comparison with gold, is universally allowed to be the consequence of the natural increase in the business and wealth of the United States, and the resulting want of

an increased currency, the green-backs, or rather the mixed currency of green-backs and gold, as gold was used for some purposes, not being of a greater extent than a gold currency which would supply its place if specie payments were resumed. These results are highly illustrative of the influence of extent upon the value of a currency.

We are now approaching another crisis and another suspension of the Bank Act of 1844. There had been considerable pressure in the money market for some time, the rate of discount having been at six per cent. in March 1866, when the coming panic began to cast its shadow upon the scene. In the beginning of May the rate of discount was suddenly raised to seven per cent. On Friday, the 12th of May—black Friday, or Overend's Friday, as it has since been called—the house of Overend and Gurney, now become a limited company, failed. The rate of discount was at once raised to nine per cent., and the Bank Act of 1844 was again suspended, by the usual letter from the Prime Minister and the Chancellor of the Exchequer, (Lord Russell and Mr. Gladstone) on the usual terms, that any profit made by the issue of

notes beyond the limit of the Act, should be placed to the national credit.

Overend's failure was followed by that of Messrs. Peto and Betts, railway contractors, and by that of the Agra and Masterman's Bank, and by those of one or two other newly established banking companies. But upon that occasion there was no general run upon the banks, nor did they seem to find any difficulty in meeting their engagements.

There is no doubt that Overend's had for a long time been doing a great deal of bad business, and there was nothing surprising in their failure. The impression caused by it was however very great, due, it was said, more to the ancient than the existing prestige of the house. Lombard Street is described as filled with a frenzied crowd until the Bank Act was suspended. That measure on that occasion greatly calmed the general agitation, nor was it found necessary to exceed the limit imposed by the Act of 1844, though the rate of discount remained at ten per cent. for three months.

One remarkable feature of this crisis was the distrust to which the suspension of the Bank Act gave rise. Amongst foreigners it

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was said, that they refused to take our bills in payment of our liabilities, requiring them to be discharged in money, and thus the period of distrust and high rate of discount was prolonged; we were supposed to have suspended cash payments.

To remove this distrust, the Secretary of State for Foreign Affairs, (Lord Clarendon) wrote to the British Embassies and Legations throughout Europe, explaining the state of the case, a measure which is said to have rather increased than allayed the mistrust.

On this occasion there was no public inquiry into the causes and progress of the panic, nor was there any great attempt to support the theory of the currency held by Lord Overstone and his friends; those views seem to have faded away, to have dropped out of the public mind. But we have the Bank directors reckoning with confidence upon the suspension of the Act of 1844, and acknowledging that it was their duty to support the Banking interest. At the September meeting of the proprietors of the Bank of England, the Governor spoke to the following effect:—‘It was not unnatural that those who required accommodation from

the Bank should have gone to the Chancellor of the Exchequer, and requested the Government to empower us to issue notes beyond the statutory amount if we should think such a measure desirable. But we had to act before we could receive any such power ; and before the Chancellor of the Exchequer was perhaps out of his bed, we had advanced one-half of our reserves, which were certainly thus reduced to an amount which we could not witness without regret, but we would not flinch from the duty which we conceive was imposed upon us of supporting the Banking community.'

The chief merit now claimed for the Act of 1844, seems to be, that it caused the Bank of England to keep a larger reserve than formerly. It was shown that on other occasions before the passing of that Act, the Bank directors had allowed their reserve to run down to a very low ebb before the crisis occurred, and it was argued, that the directors would continue to follow the same course if not restrained by law. The reader will perhaps think it rather hard that the directors of our national Bank should be treated as if quite incapable of profiting by experience, when we see the

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directors of the Bank of France acting so prudently, though not supported by a restrictive law.

It seemed now, that the Bank Act of 1844, if retained in the Statute Book, would have to be suspended on every occurrence of a certain degree of pressure in the money market, and the question was discussed, In whose hands should the power of suspension be lodged? Many schemes were suggested, but they were all open to the objection, that the exercise of the power would have the appearance of an infraction of our existing law, and as liable to be considered a suspension of cash payments.

Upon this point we refer the reader to Mr. Chapman's suggestion when examined before the committee of 1857, on the Bank charter, that the amount of the issues of the Bank should be left without any rigid limit, but that a rate of interest should be fixed in proportion to the bullion for the time being in the Bank, a rise of so much per cent. for every efflux of bullion of a certain amount. Were this suggestion adopted, there would probably be no complaints against the Bank Act of 1844; it would have the effect of keeping a

larger reserve, and would frighten no one into panic.

Here we may mention, though somewhat out of time, that the German Government, in establishing their new monetary system, have placed the power of exceeding the normal issue of notes in the hands of the directors of the National Bank, merely imposing a fine of five per cent., payable to the State, upon all notes issued in excess of the limit. It has been suggested, apparently rightly, that a five per cent. tax is not large enough. But the plan appears to be good, not only as taking away all appearance of an infringement of an existing law, but as securing the public from injury at the hands of over zealous theorists. The reader will remember, that in 1857, Lord Overstone was prepared to retain the Act in operation, let the consequences be what they might, and it is possible that similar views may be entertained by the parties in power when the next commercial crisis comes upon us.

We shall not have occasion again to recur to this celebrated Act. Practically, the directors of the Bank of England endeavour to preserve their reserve, and to influence the exchanges by

raising the rate of discount, and here of late we meet with a new phase of the money market. In ordinary times, that is, when there is no great dread of commercial difficulties, the Bank of England appears to be gradually losing its power over the outside market. Large as is that establishment, other banking institutions have grown up round about it of such dimensions that it no longer bears the same ratio to the general banking influence; another point is, that foreigners compete with ourselves for the discount for our bills, and they do this when money is plentiful with them and scarce with us; they greatly impair the power of the Bank over the outside market, and unless that market is affected, the price of securities will not be touched, nor the exchanges turned in our favour.

The reader has had so often to consider questions relating to the exchange and the consequent flow of the precious metals, that it will be interesting to him to note the points of the exchange in which gold leaves us or comes to us.

	Francs.
The par of exchange with France	25. 22½
Gold comes to us	25. 32½
Gold leaves us	22. 12½

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	Marks.
Par of exchange with Germany .	20 . 43
Gold comes to us . . .	20 . 5
Gold leaves us . . .	20 . 3
	Dollars.
Par of exchange with America .	4 . 867
Gold comes to us . . .	4 . 89
*Gold leaves us . . .	4 . 829

* 'Economist,' August 31st, 1878.

CHAPTER VIII.

THE LATIN UNION.

The Latin Union — Proposed change in the sovereign —
 Observations on the proposed change in the sovereign—Sir
 J. Lubbock and the seignorage — Why the seignorage
 would not preserve the value of the sovereign.

IN the year 1868, France, Belgium, Switzerland, and Italy entered into a monetary convention, the object being, besides perhaps some political views, to obviate the great inconvenience arising from so many independent coinages, almost every Canton in Switzerland and many small principalities in Italy having coins of different values, though sometimes bearing the same names. The currency established by this convention amongst these States, known as the Latin Union, was in fact that of France, which at the time, though based upon the double standard, consisted chiefly of gold, that metal, in consequence of its cheapness, having to a great degree displaced the silver coin.

About this time a great quantity of our gold coin was found to have become light from wear, and required to be re-coined at a considerable expense to the State, and at the same time there arose an agitation for the establishment of an international coinage throughout Europe and the United States, and as one of the greatest impediments to any plan of that kind was supposed to be, that our sovereign did not correspond with the unit of any other coinage, it was suggested, that if we took gold to the value of two pence from our sovereign, it would then be equivalent to the 25 franc piece, while the two pence deducted would pay the expense of coinage, and by acting as a seignorage, would still keep up the value of the sovereign in this country.

The Chancellor of the Exchequer, (Mr. Lowe) naturally listened to a proposal which would save the country the expense of the impending re-coinage of the light gold, and late in the session of 1868, called the attention of the House of Commons to the subject.

We need not enter into an examination of the arguments which have been advanced in favour of an international currency, as no

great nation is likely to give currency to the coins of another State over whose Mint it has no control. The world must be greatly changed before such a measure would be generally adopted, though it may have proved successful under the peculiar circumstances of the Latin Union. But the discussions which followed upon Mr. Lowe's suggestion, so far as they relate to the influence of a seignorage upon the value of the coin, are highly illustrative of some of the most abstruse points of the theory of the currency.

Mr. Lowe spoke to the following effect :—‘ As we charge nothing for manufacturing our coin, it is mere bullion, and is treated as such. When the coin is newly issued, the heavier pieces are picked out and melted, whenever the exchanges are against us and we require to export bullion ; coin is sent because it is a very convenient form of bullion ; it is bullion already assayed, and the weight of which is ascertained. By this means sudden and violent contractions of the currency take place which would not otherwise occur. (The reader will here see traces of Lord Overstone's theory.) The exported coin does not return, but is melted down

to supply foreign mints ; our coinage is, in fact, a quarry out of which other countries supply themselves at our expense.

‘ Of our sovereigns, 21 per cent., and of our half sovereigns, 47 per cent., are below the legal weight, and the expense of restoring them will be at least £400,000.

‘ Mr. Graham, late Master of the Mint, and Colonel Smith, late Master of the Calcutta Mint, suggest that for the future sovereigns of a certain age should be called in and new pieces issued by the State, the expense being defrayed by a seignorage upon the manufacture of the coin.

‘ If a charge is made at the Mint, no man will take bullion there to be coined until the value of the sovereign has risen so much as to make it worth his while to do so. Sovereigns are being perpetually destroyed ; they are lost in ships, they are melted down, they cease to circulate, and if the supply of them is arrested by an impediment placed in the way of their manufacture, such as a seignorage, they will rise in value.

‘ If we impose a seignorage of one per cent., and take it from the coin, our sovereign would

still remain a current coin in this country, of exactly the same value as now, and it would have the additional advantage of being identical in value with the five franc piece.'

This speech, coming from a Chancellor of the Exchequer, appeared very ominous to all those who were familiar with the history of our currency, and immediately called forth a great amount of criticism.

Mr. Hankey and Mr. Hubbard did not believe that the proposed sovereign could be of the same value in foreign countries as those now in existence, and Mr. Hubbard with Sir J. F. W. Herschel and Lord Overstone, pointed out, that our money was not merely pieces of gold, but pieces of gold of a given weight, and stamped by the State, and they showed that the imposition of a seignorage was entirely opposed to the whole course of our legislation upon the subject since Peel's Act in 1819. Lord Overstone, as might have been expected, was very severe upon the proposed seignorage. 'What,' he said, 'is seignorage? Upon what principle does it depend?—within what limits can its operation be restricted? At present, its mysterious influence is invoked to the extent of

one per cent., because that meets the convenience of the present difficulty, but is there any principle which will prevent the same influence being hereafter called into action to the extent of 10 per cent., should that at any future time be deemed convenient for the further improvement of our standard of value? To introduce such a rule is to afford facility and encouragement to that most dangerous tendency, FROM WHICH A COMMUNITY IS NEVER WHOLLY FREE, to seek immediate ease and a state of hollow factitious prosperity by the gradual debasement of the standard of value.'

On the other hand, Sir John Lubbock maintained, that if our coin kept its value at home it would not be depreciated abroad, for we paid our foreign debts, not with coin, but with bills, and that the bills would remain at the same price as if the change had not been made. Sir John Lubbock also said, 'to assert that a coin cannot be worth more than the bullion contained in it, is practically to deny the advantages of a coinage. Suppose Government undertook to make shoes gratis, shoes would be worth no more than shoe leather, but if subsequently Government imposed a charge of

one per cent. for manufacture, shoes would become worth one per cent. more than before. So it is with coin, so long as Government coins gratis, coin and bullion will be of equal value. If Government charges one per cent. for coinage, coin will become one per cent. more valuable than bullion. It is surely incredible that the charge of one per cent. should produce no effect upon the coin. No one will pay one per cent. for coining bullion unless the coins thus obtained are worth as much as the bullion given for them, (the seignorage proposed was the retension by the Mint of two pence) hence a Mintage must either raise the value of the coin, or put a stop to coinage altogether.'

It must be allowed that there is much force in the arguments of Mr. Lowe, Sir John Lubbock, and Colonel Smith, and they may appeal in support of them to the history of our currency. We have seen that the value of coin may depend upon its quantity, apart from the amount of the pure metal contained in it. Of this the reader will remember we had an example in the state of the coinage just before its reformation by William III. The purchasing power of the coin was then much greater than

that of the pure metal contained in it, and the only explanation that could be given of this phenomenon was, that the comparative scarcity of the coin gave it an artificial value.

And here we have also an example of the truth of Sir John Lubbock's position, that a currency having artificial value at home would not in fact be depreciated abroad. In the reign of William III. the exchanges, as we have seen, did not indicate a depreciation of the currency to the extent of one-half, as they ought to have done had the quantity of pure metal in the coin regulated them, they were on the average only from 25 to 30 per cent. against us, not 50 per cent. as they ought to have been, the coin having lost half its weight. Persons having to make payments abroad could purchase bullion at 6*s.* 3*d.* per ounce, or, as Sir John Lubbock says, bills at the same rate, and the price at which they could purchase bullion or bills, limited the exchange.

There is perhaps no point in the long discussions which have taken place on the currency more settled than this; even a foreign holder of our securities would not be injured, for he could purchase as much gold here as before

with his dividends in the shape of the reduced sovereigns, provided their value here was kept up, so our foreign debtors would gain no advantage by the change in our sovereigns, for they must obtain the new sovereigns in order to pay their debts, and they must give as much for them as before.

The reader will, however, probably feel that it is impossible that a sovereign from which two pennyworth of gold has been taken, can be equal in value to one which has suffered no such loss. Perhaps we shall find a justification for this feeling in the fact, that the number of the new sovereigns would not be limited by the seignorage as Mr. Lowe expected.

Let us suppose Mr. Lowe's plan to be in full operation at a time when business is in its usual state, his new sovereign retaining the value of the old coin. Then let one of the ordinary inflations of trade take place; a great increase of coin is required and coined to carry on the enlarged business, a panic follows, the business of the country is vastly reduced, rendering a much smaller quantity of coin sufficient to carry it on—what is to keep up the value of that coin which has now for a time

become superfluous? The new sovereigns will not, like the old ones, be melted down and exported; people will forget the difficulty originally placed in the way of obtaining them, and will value them only according to the supply for the time being in existence. That supply will therefore continue to be greater than in the case of the old sovereigns, and the currency will be depreciated accordingly.

If at any time there existed such a superfluity of the new sovereigns as we have supposed, prices, so far as they depend upon the extent of the currency, would be above the old level, and any new speculation on the occasion of a fresh expansion of business would have to start from this level, rendering still more of the new sovereigns necessary, and ultimately causing a further depreciation of the currency, until it reached a point at which it would pay to melt down the excess of the new sovereigns.

Apparently the new sovereigns would, to the extent of the seignorage, be in the nature of inconvertible notes, and the depreciation would take place somewhat in the manner, in which we have seen, it occurs in the case

of an issue of inconvertible notes by the Bank.

The permanent nature of coin, and the great variations which occur in the demand for it, perhaps take it in practice out of the general law stated by Sir John Lubbock, that the price of a manufactured article must always be equal to that of the raw material, plus the expense of manufacture. The law is true only as to such articles as shoes; the quantity of shoes required does not vary materially in a short period, and as they are soon worn out, if there should at any time be an over supply of them, their number is soon reduced. That their monetary value does depend upon supply and demand without reference to cost of production will be apparent, if we suppose half the population to be suddenly swept away by a pestilence. There would then be more shoes than feet to wear them, and the value of shoes would fall for a time below that of shoe leather, which would be useful in a variety of ways, while shoes could be used as shoes only. Coin is very different from shoes in this respect, it is very permanent in its nature, and in modern

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times the demand for it is very variable indeed.

It is hardly necessary to mention that Mr. Lowe's speech fell to the ground as did the project of an international currency.

CHAPTER IX.

FRENCH NOTES DURING THE WAR.

French notes during the war—Currency of the German Empire—Fall in the value of silver—The Indian Exchange—The Committee on the value of silver—Power of India to absorb silver—No probable depreciation of silver in India—Can a demand caused by cheapness, raise prices?—What demand will raise prices?—Mr. Bagehot on the Indian tribute—Proposed limitation of the coinage of rupees—Mr. Bagehot and the restriction of the coinage—Refusal to restrict the coinage of rupees—The restriction of the coinage of rupees—Issue of Government bills in England—Colonel Smith's plan for a gold currency—The bi-metallic standard—How the metals are to keep their relative value—Mr. Bagehot upon the relative value of gold and silver—Can the demand for the cheap metal prevent its fall?—The double standard and commodities—The Bland Bill—The bi-metallic Conference—Present position of affairs.

THERE is nothing in the course of events, after the failure of the proposal to diminish the amount of gold in the sovereign, which is of much importance to our inquiry, until the close of the Franco-Germanic war, when our attention is at once attracted by the position of the paper currency of France. Although the

issues of inconvertible paper by the Bank of France during the war had been very large, their notes were not depreciated as compared with gold. It was suggested, that much metallic currency had been hoarded during the war, and that the notes were not depreciated, because they merely supplied the place in the currency of the hoarded coin, leaving its extent the same as before. But no doubt this satisfactory state of affairs was due, in great part, to the admirable skill with which the affairs of the Bank of France had been conducted. Shortly after the conclusion of the war with France, the German Government made preparations for the establishment of a uniform system of coinage throughout their empire, and they adopted gold instead of silver as their standard of value. As the unit of value which they chose did not correspond exactly with the coin of any nation, they are accused by the advocates of international money, of putting new and unnecessary impediments in the way of such a settlement of the currency of the world. The German Government, however, probably had in view the consolidation of their new empire, and thought

that object most effectually secured by a currency peculiar to themselves.

A very unexpected event now occurred. Silver began to fall in value as compared with gold. Five franc pieces began to be again coined in France, and with us the exchange from India fell so much, that the Government drafts on that country were unsaleable at 1*s.* 10*d.* the rupee, instead of 2*s.* or 2*s.* 2*d.*, their former price.

The French Government now suspended the free coinage of five franc pieces, and the United States limited the amount for which silver should be a legal tender, to five dollars.

The price of silver continuing to fall, in 1876, it was for a short time at 47*d.* per ounce, the affair became very serious to the Indian Government, who have to pay large sums in England as interest for money borrowed here, and for other payments which are due here. These payments must be made in gold, while the Indian Government receives its income in silver. As silver falls in value here, more of it must be given to purchase the former amount of gold, and this additional quantity of silver must be taken from the Indian revenue with-

out making any return. It is, in fact, a dead loss to the Indian Government; of course private persons who have to remit money from India suffer in the same way.

The ratio of silver to gold is shown by the rate of exchange with India, a fall of one-eighth in the exchange representing, as was stated by Lord George Hamilton in the debate on the Indian Budget, one per cent. upon the remittance.

Evidently this pressure upon the Indian Government would cease, (1) if the price of silver rose again here; (2) if it fell in value in India as compared with commodities there. In the first case, matters would be restored to their former state. In the latter case, the Indian Government could increase their taxes without making any real addition to the burthens of the Ryots, who, in consequence of the general rise of prices which would follow the depreciation in the value of silver, and the consequent expansion of the currency, would obtain higher prices for their produce, though it cost them in the main no more than before. The Government would thus obtain a larger quantity of silver with which to purchase in

this country the quantity of gold required to make their remittances, and they might also increase the salaries of their servants in India, without imposing any real additional burthens upon the people of India. Of course we must remember that a large part of the Indian revenue consists of the rents paid by the Ryots for their land, which, in general, they hold for considerable terms, and the above argument would not be applicable in full until these terms had expired.

As to the first of the above-mentioned points, a committee of the House of Commons was appointed to inquire into the causes of the fall in the value of silver. This committee, Mr. Goschen in the chair, apparently came to the conclusion, that the fall in the value of silver was due rather to the apprehension of larger supplies of that metal, than to any actual increase in its quantity. They found that very little of the silver produced by the Nevada mines had come to England, and that 44 per cent. of the produce of those mines consisted of gold. The quantity of silver also sold here by Germany, it appeared, had not at this time exceeded £6,000,000, ster-

ling. The committee, however, called attention to the action of the Latin Union in suspending the coinage of five franc pieces, and to the increased amount of the payments which the Indian Government had to make here, and which were met by the sale of bills on India, and so far stopped the flow of silver to India, as causes of diminished demand for silver, and of course of a tendency to a fall in its price.

As to this point, the late Mr. Bagehot called attention to the fact, that silver was now no longer used as money by many of the silver standard countries, whose currencies, if open to it, would have afforded a large field for its employment, and thus have checked the fall in its value. Silver was now in fact reduced to the state of a commodity, and was as liable as any other commodity to lose value from an over supply.

As to the second of these points, the restoration of the former exchange with India by the natural distribution of the new supplies of silver throughout the world, and the consequent expansion of the Indian currency, we have to consider the time which must elapse before such a result could be felt, however true may

be the theory on which it is predicted ; and here we find that Mr. Goschen's committee collected some evidence of great importance on the point. India has always shown a great power of absorbing silver, that is, of taking silver at a *given price* ; and in proportion as this power is great, so will the time required to expand the currency of India and cause a rise in prices, be great.

Mr. Goschen's committee refer to a statement by Colonel Hyde, the director of the Mint at Calcutta, that in many parts of India, trade was still conducted by barter, but that the natives would use silver when they could get it, for the use of silver currency had superseded barter in the districts in which railways, roads, and other public works had been made, and a similar result had followed the rapid extension of the tea cultivation in India.

The committee also quote Colonel Hyde and Mr. Mackenzie, as to the great absorption of silver in India in the manufacture of ornaments, and they state, that with a population thus accustomed to use the precious metals in large quantities for purposes different from that of circulation, the estimate which would be appli-

cable in the case of European countries as to the amount of gold and silver which they can use, without causing a rise in prices, will hold good in a far less degree.

Again, the natives of India, like those of all countries in which property is, or has been, insecure, are much given to hoarding, a practice which seems capable of swallowing up any amount of money.

Sir George Campbell indeed differed to some extent from the committee as to several of these points, but upon the whole, he allowed, that the power of India to absorb silver will not be diminished for the future.

And here we have direct evidence, that the currency of India is not sensitive to variations in the supply of bullion which is sent to that country. The committee state, that the gross amount of the remittance of silver to India during the last four years, was £15,600,000, compared with £28,900,000 in the previous four years. Here is a falling off in the supply of nearly one-half, yet we have no hint of an incipient appreciation of the currency of India; on the contrary, there appears to be a vague feeling, that the cheap silver has already affected

prices in India, and suggestions are made, that the Ryots should be asked to pay higher rents on that account.

There can be no doubt that there are many circumstances which tend to make the currency of India much less sensitive than our own to the influence of an influx of the precious metals; in addition to the cases already enumerated, railways are only just beginning to open up the internal commerce of India, and they must have an immense influence upon the trade of so vast a country, and give rise to a great demand for coin to carry on this internal traffic. Though the cheapness of silver here is a great inducement to merchants here to send silver to India instead of commodities, the flow of silver to India on this account would soon be checked. India must have those European commodities, and if they were not sent thither in about the usual quantities, their price would rise to such a height in India from their scarceness, that they would be sent to that country in nearly the original quantities, without waiting for the expansion of the Indian currency.

Taking all these circumstances into account,

and remembering the very small and tardy change which the great gold discoveries produced upon our currency, and calling to mind other cases in which we have seen that large possible supplies of bullion have not affected prices to any appreciable extent, as when silver was thrown out of circulation by the assignats in France, and gold out of our currency during the suspension of cash payments, without any marked effect upon the currencies of neighbouring States, it seems quite clear that a very long time must elapse before the currency of India is sufficiently enlarged by any amount of silver likely to go thither, so as to affect the price of commodities, and to permit any increase in the nominal taxation of the people.

This point we may perhaps consider to be settled, though great confusion of ideas respecting it seems to exist. The late Mr. Bagehot, in his evidence before the committee, allowed that a very large amount of silver, and a very long period of time, would be required to depreciate silver to the extent of two per cent., because the countries in the East, using a silver standard, were so vast; and he pointed out very clearly the difference between a fall

in the value of silver here, as a commodity, and a fall of its value in the currency of India, a point upon which a great confusion of ideas existed, many persons vaguely supposing, that as silver has fallen in value, it must have become cheap in India.

But Mr. Bagehot raised another point on which great reliance seems to be placed, and upon which we cannot but think that he is entirely wrong. He maintained, that the flow of silver to the East caused by its cheapness here, would be a demand which would raise its price here, and other economists and statesmen agreed with him. Lord George Hamilton, in the debate upon the Indian budget, spoke of the flourishing state of the export trade from India, caused by the state of the exchange with that country, as giving rise to a demand for silver, which would raise its price here; and Mr. Goschen, remarking upon Mr. Fawcett's explanation of the manner in which the fall in the value of silver encouraged exports from India, said that Mr. Fawcett had not completed his argument, for he should have pointed out, that the increased flow of silver from England

to India, would produce a rise in the price of silver in England.

It is impossible to differ from such authorities without great hesitation, but is there not some error here, and was not Mr. Fawcett right enough in omitting the continuation of his argument suggested by Mr. Goschen. How is the flow of silver to India arising from *its cheapness here*, to raise its price here?

There seems to be no analogy between the supposed flow of silver to India, and the transmission of bullion from one country to another using a similar standard, when the currency of one of those countries becomes redundant as compared with that of the other. In this case, every transmission of bullion works in both ways; it raises prices in one country, and lowers them in the other, until the balance is restored. Silver is with us only a subsidiary coinage, and does not influence price.

With us silver is a commodity just as much as iron; it is cheap because the supply of it is, or is expected to be, in excess of the demand. Iron is at present cheap because the supply of it is in excess of the demand; our ironmasters

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lower the price of their goods in the hope of an increased demand for them at the lower price, but they do not expect that this demand will raise prices. Why should the result be different in the case of silver ?

Had there been a demand for iron or for silver at the higher prices, that is, had there been the power and the will to purchase these metals at the higher prices, they would not have fallen in value, and in the absence of such a demand as this, who is to buy them at the higher prices to which they are to be raised by their cheapness ?

Even in the case of the displacement of the dear metal by the cheap metal in the double standard, where the dear coin offers a vast market or demand for the cheap coin, this demand does not raise the price of the cheap metal, for the displacement continues until all the dear coin is gone, unless some change takes place in the supply of the cheap metal.

Of course, the demand for a commodity, caused by its cheapness, will take off a large quantity of that commodity at that cheap price, and prevent a further fall in its value, but this is a very different thing from raising

its price to the former level; of course, too, cheapness may be ultimately the cause of a rise in price in those cases in which it introduces a taste for a particular article, and thus stimulates consumers to devote a larger portion of their means to the purchase of it, but this would be a slow process, and indeed is not a case in point.

The Committee on the value of silver seem to accept the view, that a demand which will raise price must be an increase in the power and the will of the purchaser to give more for the article, and they pointed to the increased prosperity of the silver standard countries of the East as the cure for the fall in the value of silver. Whether the national prosperity of these Eastern countries will increase sufficiently to affect the price of silver, and what period must elapse before that result will be felt, are points so extremely vague as to be of no practical value.

It is evidently of the greatest importance to come to a sound conclusion upon this point; will the cheapness of silver raise its price here?—for if it will not do so, we have to look to the gradual rise of prices in India, consequent upon

the expansion of the currency of that country, as the only natural means, (apart from a rise in the price of silver here from other causes,) of restoring the Indian exchange, a process which we have seen must require an immense lapse of time.

In two very able papers which appeared in the 'Economist' of the 7th and 14th of October 1876, the late Mr. Bagehot maintained, that in time the Indian tribute, or in other words, the annual amount which the Government of that country had to pay here, would not check the flow of silver into India, and that it would only affect the exchange with India to the extent to which the balance of trade would be against India, from the necessity she would be under of exporting more commodities than she received; that is, she would suffer from the mercantile exchange, but would be relieved from the currency exchange. Mr. Bagehot's conclusions upon these points are no doubt theoretically correct, but they require the previous redistribution of silver throughout the world so as to affect prices in India, a result which we have seen is so remote, as to

render Mr. Bagehot's views upon these points of little practical value.

We now come to the consideration of a third plan for restoring the Indian exchange. In 1876, the Bengal Chamber of Commerce proposed to suspend the coinage of rupees in India, with the view of keeping up the value of the rupee in India, and so improving the exchange upon the principle already discussed in these pages, that when a currency is not depreciated at home, the exchanges will not fall. It is true that this plan, if adopted, would probably not prove successful on account of the great facilities which the position and the extent of India afford for illicit coining. But it certainly is not dishonest, as seems to have been supposed by some statesmen. In the debate on the Indian Budget, Mr. Goschen said, 'The Indian Government might say, he trusted they would not, we have claims to the extent of £15,000,000, sterling in coined rupees; if, therefore, no further rupees are coined, we shall keep up the price of the article of which we have the monopoly.' But to limit the coinage of silver would be practi-

cally to demonetize silver, and then all those who had debts to pay, could only obtain coined rupees with which to pay them, by buying such rupees at a constantly enhancing price from those who possessed them.

Now here we may ask, what injury would be done to any one by merely keeping up the value of the rupee? It is not likely, as we have seen, that the value of the rupee would be at all enhanced for at least a very long period.

In the same debate, Mr. Fawcett expressed his approbation of the firmness of the Government against the propounders of currency nostrums, and added, that the attempt to prohibit the coinage of rupees would bring about a real panic in silver, and add to the evils already felt.

In the 'Economist' of the 5th of August 1876, this proposal of the Bengal Chamber of Commerce, and the consequences of the measure, are considered in detail by Mr. Bagehot. The following are the principal points:

(1) 'This plan would hold out the greatest stimulus to private coinage which has ever been given in the world. The basis of the whole proceeding is, that silver, as a metal, is

likely to fall much and rapidly in value in consequence of the new mines in America. If this be so, the Americans will not lose the Indian market if they can help it; if the Government will not coin these rupees, they will do so for themselves, and no law will be able to keep what they coin out of India.' This is no doubt true to some extent, but still the expense of coining those rupees, and the impediments which would be placed upon their introduction into the Indian currency, which would not be quite inoperative, would together amount to a considerable seignorage upon the coin, and would tend to keep up its value.

The next point is, 'That the proposed plan would suspend the natural cure for the present evil. The silver market is now disorganized, not by a great supply, but by an excessive apprehension, and the proper cure for such a market, (and it is often a rapid one) is a brisk demand. Now the nature of the present fall in the exchange value of the rupee, is to give a bounty on exports from India, and to give a discouragement to imports into India, and thus to create a balance of trade favourable to India, and a flow of silver thither. As there is no

excess of supply in the silver market, the demand thus created would sustain its value.' As to this point, if the fall in the value of silver is the result of a panic, it will subside when the panic is over, and we need not trouble ourselves about the matter. But we must take the case of a fall in the value of silver when caused, not by a panic, but by the increased production of the American mines, and the gradual demonetization of silver in Europe, and here we meet the two difficulties—(1) the length of time required to expand the currency of India so as to affect prices; and (2) the supposed fallacy of treating a demand, which arises from the cheapness of silver, as a cause in itself of a rise in its price.

'It will cause a motion of prices in a wrong direction, and some time or other this wrong movement will have to be corrected. We cannot imitate the Latin Union, who have stopped for the present the coinage of silver, for the cases are not similar. Two of the principal countries of the Latin Union, have an inconvertible paper currency, which is now really the standard, and not metal at all, and in the other countries, silver is in fact not the principal currency, and

prices are not regulated by it. The silver coin, too, is of subordinate importance, and on that account not so liable to be illegally manufactured as the coin of India. Why, then, was the suspension of the coinage adopted? The members of the Latin Union have an object in assuming this expectant attitude; they may contemplate at some future time the adoption of a gold currency, but India is irrevocably committed to a silver currency.'

As to this point, we may note, that if a currency like that of France, in which at present both gold and silver are demonetized, can be kept by good management in such a state as to inflict injury on nobody, there seems no reason to suppose that it is impossible to keep the currency of India in a similar state.

The article concludes with the following passage, 'The true remedy is not to impede silver going to India, but to permit the laws of trade to diffuse silver through India and through the world; this will cause an immense demand for silver in the countries where it is the only currency, and which are still vast and numerous.' Here, again, the demand to which allusion is made, though merely the

natural consequence of the cheapness of silver, is looked upon as causing a rise in the value of that metal.

No doubt the proposed suspension of the right of coinage, or a tax upon the importation of silver into India, would check the demand for silver here. But the question is, Would a seignorage upon the coinage of rupees in India, or a tax upon the importation of that metal into India, lower its value here to the full extent of the seignorage or tax? Probably not, inasmuch as there are other silver standard countries upon whose demand, as well as that of India, the value of silver here depends.

The Indian Government rejected the proposal of the Bengal Chamber of Commerce, on the ground, that the plan would give the rupee an artificial value, would lower prices and disorder trade; they say it is essential to a sound system of currency that it should be automatic. No man or body of men can ascertain whether at any particular moment the interests of the community as a whole, require an increase or diminution of the currency, still less how much increase or how much decrease is at any moment exactly needed; no Govern-

ment would be justified in leaving the community even for a short interval without a fixed metallic standard of value.

Now, in fact, if our conclusion is correct, that from the extent of the field of action, the value of the rupee is incapable for a very long period of diminution or increase, in consequence of any probable importation of silver into India, or of any check to its importation, the proposed limitation of the coinage of rupees can hardly be called a currency nostrum; it is simply a means of stopping a speculation which is highly injurious to the Government of India, and of no use to the natives. It is the power of sending the cheap silver to India, by persons who are not natives of the country, and there converting it into coin, that lies at the root of the present inconvenience. The coinage of rupees does not take place, as stated in the minute of the Indian Government, because the people of that country require an increase of the circulating medium, but because merchants gain by sending silver to India, and because, according to Mr. Bagehot, the American miners want a market for their goods.

The plan proposed by the Bengal Chamber

of Commerce has at least one merit which few currency nostrums possess; if found to be injurious, it could be abandoned without difficulty, as there would be no mass of depreciated coin to be got rid of, for the coinage of India would not be debased by the introduction of the illicit coin, mentioned by Mr. Bagehot; these coins would be very different from ordinary debased coins; they would be of full weight and fineness; they would indeed be as good as if coined by the State. If the restriction were removed as useless, the former state of affairs would be quickly restored without injury to any one; that is, if our conclusion be correct, that the currency of India cannot for a very long period be sensibly appreciated or depreciated.

We have no intention of advocating the plan proposed by the Bengal Chamber of Commerce, it is not the business of a historian to advocate any particular measure. But we have felt compelled to call attention to the above points from a strong conviction based upon all historical evidence upon the point, that the so-called natural remedy for the existing inconvenience will not be found, either in

the expansion of the currency in India by the flow of silver thither, or by the enhancement of the value of silver here, by the demand caused by its cheapness.

We may mention, that in addition to the above difficulties in the way of the plan proposed by the Bengal Chamber of Commerce, it is said that the tola weight of silver bullion has from time immemorial been recognized throughout India as a measure of value which was merely adopted in the rupee, and to which the country might return were any attempt made to enhance the value of the rupee.*

The Indian Government have already had recourse to a financial measure of a doubtful character. They have asked for power to issue Treasury bills in England for £2,500,000, to be applied in making their payments here, when the state of the exchange is unusually against them, and to be paid off when the exchange is more favourable. This plan was suggested by the late Mr. Bagehot, who was strongly impressed with the idea, that the fall in the value of silver was only temporary, in which case the plan might be

* Mr. Hamilton, in the 'Economist' of the 30th of Nov., 1878.

decidedly useful, but the result may be very different, if the fall in the value of silver should continue for an indefinite period. It will be very difficult to prevent these £2,500,000, from forming a permanent addition to the Indian debt in England, and, of course, of adding an increase to the exchange pressure.*

The reader will now be able to form an opinion upon a proposal which was made by Colonel Smith, for the introduction of a gold standard into India, without at the same time providing a gold currency. The point upon which this plan rests, is the appreciation of the rupee by the limitation of the coinage, until the rupee became more valuable than the corresponding gold coin, when it was supposed that gold would naturally flow into India. If we are right in supposing, that the currency of India cannot be easily either appreciated or depreciated, this plan must evidently fail.

It was supposed, from the limitation of the coinage of five franc pieces in France, and from the reduction of the legal tender in silver in

* Application has been made to Parliament by the Indian Government, to borrow a further sum of £10,000,000, we presume to be repaid when times become prosperous, a perilous draft on future prosperity.

the United States to five dollars, that the Latin Union and the United States would ultimately demonetize silver. But as the time approached for the resumption of specie payments in America, a strong agitation was got up for the adoption of a double standard, or perhaps we should say, of a bi-metallic standard, as the promoters of the scheme professed at least to believe, that both gold and silver could be permanently kept as principals in a currency, provided the terms upon which they were to exchange with each other were fixed by law.

This proposal was agreeable to several parties in America for very different reasons. The admirers of 'soft money' thought the plan a step in their direction. The owners of the silver mines expected that the price of silver would rise, and the small freeholders, a very powerful body in the United States, were easily persuaded that everybody would have more money when both metals were used as coin, than when one of them only was so employed.

A bi-metallic currency had been for some time a favourite scheme with certain European

Economists, who thought that there was a general tendency amongst the European States to adopt gold as their standard of value, and who feared that in consequence of this adoption there would be such a demand for that metal, that its value would be appreciated to the great disadvantage of those who had money to pay, and indeed of society in general, these economists belonging in the main to the school in which plenty of money is supposed to foster industry, and to be directly productive of wealth.

M. Cernuschi is the great champion of bi-metallism. He says, since 1803 the silver franc has weighed $15\frac{1}{2}$ francs in gold, and the silver mark now weighs $15\frac{1}{2}$ marks of gold; let us have a silver dollar weighing $15\frac{1}{2}$ times the gold dollar, and a silver piece of four schellings weighing $15\frac{1}{2}$ times four gold schellings. Let those weights be maintained, and let us everywhere ordain that holders of gold and silver be free to take these metals to the Mint and have them coined, and let it be optional to all to pay in gold or silver specie.

The reader will perhaps say, What is the use of a formal statement of this plan as a novelty?

—it is simply the old double standard. If there is one point more settled than another in the history of the currency, it is, that when two coins meet as principals in a currency, the cheaper always drives out the dearer coin. What new argument can M. Cernuschi bring forward against this well-known fact ?

M. Cernuschi's argument is, that if one metal become more abundant, that is to say more easily obtainable, than the other, more persons will seek for that which has become abundant and will neglect that which is scarce ; there will thus be a demand for the cheaper, and an absence of demand for the dearer, metal, and their relative values will remain unaltered.

We should not think this argument worthy of attention in the face of the historical evidence against it, were it not in fact the argument which we have seen brought forward to prove, that the flow of silver to the East caused by its cheapness will raise its price. Mr. Bagehot, in his evidence before the silver committee, alluding to the action of the Latin Union in checking the free coinage of five franc pieces, says, ' Up to the year 1874, it was open to anybody to go to the French Mint with

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silver or gold and get it coined, the consequence of course was, that the moment either metal became depreciated, the holder took it to the Mint and had it coined; but in the year 1874, that process was arrested. If it had not been for that change of policy, all the silver which is flooding the London market would long since have been in the Mints of those countries. It would have released gold from them, and the combined effect of the two operations would have been, that the comparative value of gold and silver would have been very little altered, *probably not at all.*' And this view, judging from Mr. Goschen's speech on the Indian Budget, appears to have been approved by the committee.

Now we know, from our previous inquiry into the history of the currency, that in the double standard, so soon as the value of one metal falls from an increased supply, that metal takes the place of the other metal, until all the dearer metal has disappeared, provided the supply of the cheaper metal be continued. How could this happen if demand from cheapness raised price? In the existing state of the currencies of the world, there seems no reason

to suppose, that the quantity of the dearer metal thrown out of one or two currencies, would be sufficient to reduce its value to that of the cheaper metal; the portion of the dearer metal which was thrown out of these currencies, would be absorbed into others without much loss of value.

It is unnecessary to discuss the point, what would happen if M. Cernuschi's plan were universally adopted; it is impossible in the present state of the world; indeed he has himself allowed, in a recent pamphlet, that unless England will demonetize silver, his scheme must fail.

We must note here, that the double standard is allowed by most economists to have the effect of moderating the influence of changes in the value of the precious metals as compared with commodities. M. M. Chevalier, as we have seen, pointed out the manner in which the substitution of gold for silver in the currency of France, retarded the fall in the value of gold as compared with commodities, and the same point has since been ably proved by M. Wolowski. We do not argue, that the fall in the value of silver will not be checked by its use

as currency, but only that its employment in that manner will not restore its value while the increase in the supply continues.

Although the President of the United States professed to be a bi-metallist, he did not seem to be quite satisfied that the proposed plan, when carried out, might not result in a depreciation of the American currency. He vetoed Mr. Bland's bill for the introduction of the new coinage, on the ground that it would be unjust to the creditors of the State, and might be considered to stain the hitherto spotless Federal credit of the United States. Professor Francis A. Walker, too, though an advocate for a bi-metallic currency, confessed, that on this occasion, the apparent victory of the bi-metallists was really due to reinforcements from the ranks of the inflationists and repudiationists.

The Bland bill was carried by a majority sufficiently large to over-ride the President's veto, and shortly afterwards a message was sent by the American Secretary of State to the different European Governments, inviting them to a conference to be held at Paris, to ascertain by what methods a practical equilibrium between gold and silver can be main-

tained, which will keep both metals in circulation, with the view, if such methods could be discovered, of a general adoption of the so-called bi-metallic standard.

This invitation was accepted by all the Governments to which it was addressed, except by Germany, our Government accepting it at the request of that of India, one of our representatives being Mr. Goschen. As might have been expected, the conference did not accept the American view; it was decided, Italy and America dissenting, that each State should be left at liberty to choose its own standard.

The Bank of France has accumulated a vast mass of treasure, about £90,000,000, preparatory to the resumption of cash payments. The whole of this sum, however, is not gold; about £20,000,000, it has been supposed, consists of silver. The reader will at once see, that on resuming cash payments, the Bank of France will have to meet, on a large scale, the difficulties which induced her to exchange £2,000,000, of silver for £2,000,000, of gold in 1860, except that the position of the two metals is now reversed. It would be profitable for the Bank to pay in silver; will the directors

sell for silver the vast amount of gold which they hold, and practically for the time demonetize gold?

At present, appearances are in favour of leaving things much as they are, the 'mass of wholesome opinion' in the United States is again making itself felt. From the result of the elections, it seems evident, that care will be taken to prevent any possible chance of a change of currency in the direction of expansions. There is a talk of putting more silver into the dollar, but as this plan would be impracticable without a calling in and recoinage of the whole silver money of the States, (for otherwise the heavier coin would, as we have seen, disappear as fast as it was issued), the probability is, that the value of the currency will be kept up by limiting the silver coinage as at present to subsidiary uses. The Latin Union has renewed its convention for six years, during which time, it is said, that the coinage of five franc pieces is to be entirely suspended.

Since these lines were written, the United States have resumed specie payments, which as yet have been made in gold, greenbacks and

gold being now of equal value. Upon the whole there is no appearance of any change being made in the standard of value. These matters, however, are as yet hardly within the province of history, and we may now terminate our inquiry.



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